Orazul Energy Perú S.A. and Subsidiaries

Interim Consolidated Financial Statements

For the nine-month period ended as of September 30, 2017 and for the period comprises between October 10, 2016 (incorporation date) and December 31, 2016

ORAZUL ENERGY PERÚ S.A. AND SUBSIDIARIES

TABLE OF CONTENTS

Pages

INTERIM CONSOLIDATED FINANCIAL STATEMENT FOR NINE-MONTH PERIOD ENDED AS OF SEPTEMBER 30, 2017 AND FOR THE PERIOD COMPRISES BETWEEN OCTOBER 10, 2016 (INCORPORATION DATE) AND DECEMBER 31, 2016:

ORAZUL ENERGY PERÚ S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF SEPTEMBER 30, 2017 AND DECEMBER 31, 2016
(In thousands of dollars US$000)

	Notes	2017 US$000	2016 US$000
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	6	21,380	85,213
Trade accounts receivable (net)	7	22,071	22,719
Other accounts receivable	8	3,432	2,195
Accounts receivable from related entities	9	102,489	198
Inventories (net)	10	7,399	6,023
Income tax asset	26 (e)	504	3,833
Other assets		1,639	581
Assets held for sale	11	185,644	508,258
Total current assets		344,558	629,020
NON-CURRENT ASSETS:			
Other accounts receivable	8	1,380	1,334
Property, plant and equipment (net) - Energy generation and transmission	12	382,578	388,326
Property, plant and equipment (net) - Gas investment	13	69,782	64,343
Intangibles assets	14	489,071	489,071
Deferred income tax assets	27	5,630	2,067
Other assets		1,512	536
Total non-current assets		949,953	945,677
TOTAL		1,294,511	1,574,697

	Notes	2017 US$000	2016 US$000
LIABILITIES AND EQUITY			
CURRENT LIABILITIES:			
Financial obligations	15	12,899	18,108
Trade accounts payable	16	10,103	16,738
Other accounts payable	17	1,965	3,963
Accounts payable to related entities	9	132,358	454
Liabilities for employee benefits	18	2,019	7,443
Deferred income		357	485
Total current liabilities		159,701	47,191
NON-CURRENT LIABILITIES:			
Financial obligations	15	539,821	494,670
Accounts payable to related entities	9	140,990	340,187
Deferred income tax liabilities	27	101,666	101,060
Provisions		1,591	1,784
Deferred income		-	309
Total non-current liabilities		784,068	938,010
Total liabilities		943,769	985,201
EQUITY:			
Issued capital stock	19 (a)	142,906	85,300
Excess of value paid in purchase of shares	19 (b)	(16,556)	-
Retained earnings	19 (c)	224,295	315,463
Equity attributable to equity holders controlling		350,645	400,763
Non-controlling interests		97	188,733
Total equity		350,742	589,496
TOTAL		1,294,511	1,574,697

The accompanying notes are an integral part of these consolidated financial statements

ORAZUL ENERGY PERÚ S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR NINE-MONTH PERIOD ENDED ON SEPTEMBER 30, 2017 AND 2016 (NOTE 1(d))
(In thousands of dollars US$000)

	Notes	For the period of 1/1/2017 and 9/30/2017 US$000	For the period of 1/1/2016 and 9/30/2016 US$000 Note 1(d)
CONTINUOUS OPERATIONS			
Sale of energy and electrical energy transmission services		138,817	166,414
Sale of hydrocarbons		11,363	14,194
Total of sales	20	150,180	180,608
Costs of sale of energy and electrical energy transmission services		(73,003)	(89,180)
Cost of sales of hydrocarbons		(7,219)	(10,838)
Total of cost of sales	21	(80,222)	(100,018)
Gross profit		69,958	80,590
Administrative expenses	22	(19,170)	(22,168)
Selling expenses	23	(1,063)	(1,122)
Other income	24	3,798	1,790
Other expenses		(2,139)	(1,672)
Financial income		2,973	697
Financial expenses	25	(61,451)	(4,179)
Exchange difference (net)		672	12
(Loss) profit before income tax		(6,422)	53,948
Income tax expense	26 (b)	(10,819)	(15,563)
Net (loss) profit for continuous operations		(17,241)	38,385
DISCONTINUED OPERATIONS			
Profit or loss of the year for discontinued operations	11	(333,512)	-
Net (loss) profit for the period		(350,753)	38,385
Other comprehensive income for the period		-	-
Total comprehensive income for the period		(350,753)	38,385
Attributable to:			
Non-controlling interests		(35)	-
Equity holders of the Parent		(350,718)	-

The accompanying notes are an integral part of these consolidated financial statements

ORAZUL ENERGY PERÚ S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR NINE-MONTH PERIOD ENDED ON SEPTEMBER 30, 2017 AND THE PERIOD BETWEEN OCTOBER 10, 2017 (INCORPORATION DATE)
AND FOR THE YEAR ENDED ON DECEMBER 31, 2016

	Issued Capital Stock US$000 (Note 19 (a))	Excess of value paid in purchase of shares US$000 (Note 19 (b))	Retained Earnings US$000 (Note 19 (c))	Total equity attributable to equity holders controlling US$000	Non-controlling interests US$000 (Note 19 (d))	Total Equity US$000
AS OF OCTOBER 10, 2016 (INCORPORATION DATE)						
Capital contribution in cash (Note 19)	85,300	-	-	85,300	-	85,300
Purchase price allocation to Non-controlling interests (Note 28)	-	-	-	-	65,947	65,947
Assets held for sale	-	-	-	-	16,046	16,046
Non-controlling interests allocation (Note 19(d))	-	-	(52,804)	(52,804)	52,804	-
Total comprehensive income for the period	-	-	368,267	368,267	53,936	422,203
Subtotal	85,300	-	315,463	400,763	188,733	589,496
TOTAL EQUITY AS OF DECEMBER 31, 2016	85,300	-	315,463	400,763	188,733	589,496
Capital reduction (Note 19(a))	(70,377)	-	80,684	10,307	(10,307)	-
Capitalization of debt (Note 19(a))	127,950	-	-	127,950	-	127,950
Capital stock issued for the merger (note 1(c))	33	-	-	33	-	33
Assets held for sale from acquisition of non-controlling interests	-	-	-	-	(5,739)	(5,739)
Foreign currency adjustment of subsidiary merged (note 1(c))	-	-	6,311	6,311	-	6,311
Acquisition of non-controlling interests (Note 19(d))	-	-	172,555	172,555	(172,555)	-
Excess of value paid in purchase of shares (Note 19(b))	-	(16,556)	-	(16,556)	-	(16,556)
Total comprehensive loss for the period	-	-	(350,718)	(350,718)	(35)	(350,753)
Subtotal	57,606	(16,556)	(91,168)	(50,118)	(188,636)	(238,754)
TOTAL EQUITY AS OF SEPTEMBER 30, 2017	142,906	(16,556)	224,295	350,645	97	350,742

The accompanying notes are an integral part of these consolidated financial statements

ORAZUL ENERGY PERÚ S.A. AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR NINE-MONTH PERIOD ENDED ON SEPTEMBER 30, 2017 AND 2016 (NOTE 1(d))
(In thousands of dollars US$000)

	For the period of 1/1/2017 and 9/30/2017 US$000	For the period of 1/1/2016 and 9/30/2016 US$000 Note 1(d)
OPERATING ACTIVITIES:		
Collection from:		
Sale of energy and electrical energy transmission services	136,789	190,626
Sale of hydrocarbons	6,691	22,480
Interests and returns	38	348
Other operating activities	2,191	2,182
Payments for/to:		
Royalties	(6,749)	(13,517)
Suppliers of goods and services	(85,166)	(90,592)
Income tax	(7,038)	(28,803)
Employees and social benefits	(14,794)	(16,437)
Interests	(4,956)	(13,997)
Taxes	(4,400)	(4,024)
Other operating activities	(2,019)	(5,137)
Net cash and cash equivalents provided by operating activities	20,587	43,129
INVESTMENT ACTIVITIES:		
Collection from:		
Sale of property, plant and equipment	4,064	179
Payments for:		
Purchase of property, plant and equipment	(574)	(3,003)
Purchase of gas investments	(7,808)	(2,888)
Net cash and cash equivalents used in investment activities	(4,318)	(5,712)
FINANCING ACTIVITIES:		
Collection from:		
Loans received - Bonds	550,000	-
Payments for:		
Dividends	-	(146,259)
Financial obligations	(547,152)	-
Loans to related entities	(82,950)	-
Net cash and cash equivalents used in financing activities	(80,102)	(146,259)
NET DECREASE OF CASH AND CASH EQUIVALENTS	(63,833)	(108,842)
CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD	85,213	194,055
CASH AND CASH EQUIVALENT AT THE END OF THE PERIOD	21,380	85,213

The accompanying notes are an integral part of these consolidated financial statements

1. INCORPORATION, ECONOMIC ACTIVITY, MERGER BY ABSORTION, COMPARATIVE 2016 FINANCIAL INFORMATION, SUBSIDIARIES AND OPERATING REGULATIONS

(a) Incorporation

Orazul Energy Perú S.A. is a partnership limited by shares (hereinafter, the Company) and a Subsidiary of Orazul Energia (UK) Holdings LTD. which owns 99.99% of voting shares which are representative of its issued capital stock.

The Company was incorporated in Peru in October 10, 2016 and in December 20, 2016, acquired from Duke Energy Corporation the 87.23% of Orazul Energy Group S.A.C. (former legal name was Duke Energy International Group Sarl) which ultimate owned a group of companies in Peru, Chile, Guatemala and El Salvador engaged in generation of electrical energy.

Since the acquisition date of Orazul Energy Group S.A.C., the Company had the plan to sale the business located in Chile, Guatemala and El Salvador in a short term and such those assets have been classified as asset held for sale (Note 11). The significant businesses of Peru are related to hydro and thermal power generation, electricity transmission and natural gas production and processing assets.

As part of a reorganization plan within Orazul Group, the Company executed the following transactions:

-On August 2, 2017, the Company acquired an additional 12.76% of Orazul Energy Group S.A.C. (hereinafter OEG) to Orazul Energía (España) Holding S.R.L. (which previously acquired the participation from Duke Energy Corporation in 2016) for a total of US$ 131,851, increasing its participation to 99.99%.

-On August 16, 2017, the Company merged by absorption with Orazul Energy Egenor S. en C. por A., which was one of its main subsidiaries in Peru.

(b) Economic activity

The Company is engaged to (direct or through or in association with third parties) invest in, and hold, securities, including, but not limited to, shares representing the capital of other companies, whether Peruvian or foreign under any modality, and to the generation of electrical energy through its hydroelectric power plants Cañon del Pato and Carhuaquero.

The Company's legal domicile, where its administrative offices are located, is Calle Dionisio Derteano 144, Floor 19, San Isidro, Lima, Peru.

(c) Merger by absorption

Based on the reorganization plan within Orazul Group, by public deed dated October 9, 2017 and Shareholders' Meeting held on August 16, 2017, the merger of the Company, remaining as acquirer company, with **Orazul Energy Egenor S. en C. por A.,** was approved. The acquired transferred all net assets and extinguished without dissolution or liquidation. The effective date for the merger was August 17, 2017. This merger was performed between two companies under common control as of December, 31, 2016 and has not resulted in an effective change in the control of subsidiaries within the Group.

Economic activity of **Orazul Energy Egenor S. en C. por A.** was generation of electrical energy within the area of its concessions and authorizations through its hydroelectric power plants Cañon del Pato and Carhuaquero, and also the sale of electrical energy to regulated and free customers in the Peruvian territory that are part of the National Interconnected Electrical System (SEIN, for its acronym in Spanish) which the Company participates in.

Below are the assets and liabilities as of August 16, 2017, as well as the income and expenses of **Orazul Energy Egenor S. en C. por A.** (for the period comprises between January 01, 2017 and August 16, 2017)

	As of 8/16/2017 **US$000**
Statements of financial position	
Assets	
Current Assets	526,630
Non- current Assets	276,999
Total asstes	803,629
Liabilities	
Current liabilities	17,562
Non-current liabilities	593,540
Total liabilities	611,102
Equity	192,527
Total liabilities and equity	803,629

	Period from 1/1/2017 to 8/16/2017 **US$000**
Statements of profit or loss and other comprehensive income	
Sales	67,888
Gross profit	29,604
Net expenses	(8,034)
Profit before income tax	21,570
Income tax expense	(6,620)
Net profit for the period	14,950

(d) Comparative 2016 financial information

As mentioned in the above paragraph the Company was incorporated in October, 2016, afterward acquired the 87.23% of OEG in December, 2016, therefore the control of its subsidiaries started only since then. However, for comparative purposes, the Consolidated Statements of Profit or Loss and other Comprehensive Income and Consolidated Statements of Cash Flows for nine-month period ended September 30, 3016 have been included in the Consolidated Financial Statements for the benefit of the readers of this report to understand the economic performance of the business activities in generation of electrical energy between 2017 and 2016.

(e) Subsidiaries

The Subsidiaries are the entities in which the Company has the power over the investee; is exposed, or has rights, to variable returns from its involvement with the investee; and has the ability to use its power to affect its returns. This situation is usually observed by controlling the equity interest of more than half of voting shares.

The Subsidiaries are entirely consolidated as from the date when their control was effectively transferred to the Company, and will cease to be so when the Company loses such control.

The Subsidiaries, as of September 30, 2017 and December 31, 2016, and the percentages of interest owned by the Company are detailed below:

OEG:	**Direct equity interest**	
	2017	**2016**
	%	**%**
Orazul Energy Group S.A.C.	99.99	87,23

In addition OEG has the following operating subsidiaries:

OEG subsidiaries:	**Indirect equity interest**	
	2017	**2016**
	%	**%**
Holding:		
Orazul Energy Hidrocarburos S.A.	99.9769	-
Orazul Energy Transmisión S.A.	99.977	-
Assets held for sale (Note 11):		
Orazul Energy Group Cooperatie U.A. (Chile)	99.990	99.990
Orazul Energy Guatemala Ltd. (Central América)	-	99.000
Orazul Energy El Salvador Investments No. 1 S.a.r.l. (Central América)	-	99.950
Operational:		
Orazul Energy Egenor S. en C. por A. (Note 1(c))		99.96615
Etenorte S.R.L.	99.977	99.96615
Aguaytia Energy del Peru S.R.L.	99.977	99.977
Termoselva S.R.L	99.977	99.977
Eteselva S.R.L.	99.977	99.977

Etenorte S.R.L.

The economic activity is engaged in the transmission of electrical energy in accordance with Peruvian regulations, through the concession of certain transmission lines in northern Peru. The Company (Orazul Energy Perú S.A.) is its main client, which represents approximately 80% of its operating income (85% in 2016).

Aguaytia Energy del Peru S.R.L.

Aguaytia Energy del Peru S.R.L. (hereinafter Aguaytia) owns a natural gas field located in central rainforest of Peru (Block 31-C), from which it obtains dry natural gas and natural gas liquids; those gas liquids are then treated at the Fractionation Plant which produces liquefied petroleum gas (LPG) and natural gasoline. Dry natural gas is used by its Subsidiary, Termoselva S.R.L. (hereinafter Termoselva), for the generation of electrical energy. Natural gasoline was sold to Maple Gas Corporation del Peru S.RL. (hereinafter Maple) until July 14, 2017. Purchase agreement with Maple was terminated on August 13, 2017. LPG is sold to wholesalers and distributors, which perform their activities in the central rainforest and highlands of the country.

Termoselva S.R.L.

The economic activity of this subsidiary is the generation of electrical energy within its concession area. In order to perform its operations, Termoselva operates its thermoelectric power plant in Ucayali exclusively with dry natural gas provided by the Gas Plant of the Aguaytia with which it has entered into an agreement for the purchase of dry natural gas and sale of electrical energy to regulated and free customers in the Peruvian territory that are part of the National Interconnected Electrical System (SEIN, for its acronym in Spanish) which Termoselva participates in.

Eteselva S.R.L.

The economic activity of this subsidiary is electrical transmission services, for which it has a transmission line of 392.7 km., divided in three sections: (a) Line 251 that connects the Aguaytia substation in Ucayali with Tingo Maria Substation, (b) Line 252 that connects Tingo Maria substation in Huánuco to Vizcarra substation, and (c) Line 253 that connects Vizcarra substation in Ancash to Paramonga Substation in Lima. The latter has been defined by the Ministry of Energy and Mines as part of the Main Transmission Network of the National Interconnected Electrical System. Its main customer is related entity Termoselva, with which it has entered into an agreement for electricity transmission and reserve capacity.

(i) *Amounts of the financial statements of the consolidated Subsidiaries*

Certain amounts of the financial statements of the Subsidiaries as of September 30, 2017 and December 31, 2016, prepared under International Financial Reporting Standards, before elimination for consolidation purposes, are presented below:

Subsidiaries	2017 US$000	2016 US$000
Etenorte S.R.L.		
Total assets	12,685	10,859
Total liabilities	1,347	1,465
Equity	11,338	9,394
Net profit	1,612	1,887
Other comprehensive income	-	-
Aguaytia del Peru S.R.L.		
Total assets	176,354	178,598
Total liabilities	6,623	18,856
Equity	169,731	159,742
Net profit	9,990	13,530
Other comprehensive income	-	-
Termoselva S.R.L.		
Total Assets	72,650	74,869
Total Liabilities	17,087	15,989
Equity	55,563	58,880
Net profit	14,185	18,534
Other comprehensive income	-	-
Eteselva S.R.L.		
Total Assets	34,721	34,700
Total Liabilities	1,289	2,657
Equity	33,432	32,043
Net profit	1,389	1,568
Other comprehensive income	-	-

(f) *Changes in the Company's ownership interests in existing subsidiaries*

Changes in the Company's ownership interests in subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Company's interests and the non- controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognized directly in equity and attributed to owners of the Company.

When the Company loses control of a subsidiary, a gain or loss is recognized in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognized in other comprehensive income in relation to that subsidiary are accounted for as if the Company had directly disposed of the related assets or liabilities of the subsidiary. The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting, when applicable, the cost on initial recognition of an investment in an associate or a joint venture

(g) License Agreement for the production of hydrocarbons (Block 31-C)

This agreement allows Aguaytia to produce hydrocarbons in the area known as Block 31-C, where there are four producing wells and three gas reinjection wells. Other relevant aspects of the License Agreement are indicated as follows:

(i) The term of the License Agreement is for 30 years counted from the subscription date of the agreement (March 30, 1994), which can be extended up to 40 years upon agreement of the Aguaytia and Perupetro in behalf of the Peruvian Government.

(ii) Aguaytia agreed to comply with a minimum work schedule, which was entirely completed in 1998. This schedule included, among others, drilling and operation of wells, gas extraction and injection, construction of a gas processing plant and facilities for fractioning natural gas liquids and energy generation.

(iii) Pursuant to the Organic Hydrocarbons Law and the Regulations for the Application of Royalties and Compensations, Aguaytia pays a royalty on a biweekly basis and applies a percentage on the valuation of production of supervised hydrocarbons (natural gas and natural gas liquids), as defined in the License Agreement.

The expense for royalties in 2017 was US$5,856 (US$13,518 in 2016) (Note 21) and is presented in item cost of sales of the consolidated statement of profit or loss and other comprehensive income and US$893 is part of the inventory balance (Note 10).

In July 2013 Aguaytia initiated a process of arbitration against Perupetro requesting a readjustment in the royalties that the Company paid for the exploitation of the resources produced from the block 31-C.

On December 28, 2016, the Court issued a final decision in which accepted the request of Aguaytia to readjust the price of the natural gas royalty. The changes to these royalties will be in force since January 1, 2017.

(iv) Taxes

Aguaytia entered into a Legal Stability Agreement on March 30, 1994 with the Peruvian government, under which the tax regime was guaranteed for gas operation and processing activities, as from the subscription date of the License Agreement until 2024, as well as according to specific standards established in this regard by the Organic Hydrocarbons Law and its amendments, during the term of the License Agreement.

(v) Other rights

On behalf the Peruvian government, the Central Reserve Bank of Peru guarantees Aguaytia the availability and convertibility of U.S. dollars.

(h) Operating regulations and legal standards that affect the hydrocarbons sector

Main operating regulations and legal standards of the hydrocarbons sector, where the Company develops its activities are as follows:

- Organic Hydrocarbons Law – Law No. 26221
- Supervising Entity of Investment in Energy and Mining (OSINERGMIN, for its acronym in Spanish), by virtue of Law No. 26734, amended by Law No. 28964.
- Fund for the stabilization of fuel prices – Emergency Decree No. 010-2004 and its Regulation Supreme Decree No. 142-2004-EF
- Law that creates the Energy Security System in Hydrocarbons and the Energy Social Inclusion Fund, (FISE, for its acronym in Spanish) - Law No. 29583.
- Law that guarantees energy security and promotes the development of the petrochemical pole southern Peru, Law No. 29970.

(i) Operating regulations and legal standards that affect the electrical sector

Main operating regulations and legal standards of the electrical sector, where the Company and Subsidiaries develop their activities are as follows:

- Electrical Concessions Law.
- Law to ensure the efficient development of electrical generation.
- Law that establishes a mechanism to ensure the electricity supply for the regulated market.
- Technical Quality Standard for Electrical Services.
- Anti-monopoly Law in the Electrical Sector.
- Supervisory Entity of Investment in Energy and Mining.
- Break-even Law for the Budget of the Public Sector for Taxable Period 2014 (Law No. 30115), whose Tenth Supplementary Provision sets out the extension of the effective term of Emergency Decree No. 049-2008 until December 31, 2016 and extended up to October 1, 2017 by sixth article of Law 30513.
- Regulations for Environmental Protection during Electrical Activities (Supreme Decree No. 29-94-EM).
- Promotion of Investments for Electricity Generation by using Renewable Energy.
- Energy Security System in Hydrocarbons and the Energy Social Inclusion Fund (Law No. 29852), and its regulation, Supreme Decree No. 021-2012-EM.
- Supreme Decree No. 026-2016-EM, which establishes the Regulation of the wholesale Electricity Market.

- Law that guarantees energy security and promotes the development of the petrochemical pole southern Peru (Law No. 29970) and its Regulations, Supreme Decree No. 038-2013-EM and Supreme Decree No. 005-2014-EM.

- Law for the Promotion of Investments for Economic Growth and Sustainable Development (Law No. 30327), which establishes the simplification and incorporation of permits and procedures, as well as investment promotion measures.

- Legislative Decree that improves the Regulation of Electricity Distribution in order to promote the access to electrical energy in Peru (Legislative Decree No. 1221), which establishes amendments to the Electrical Concessions Law. It also establishes guidance for the development of Distributed Generation.

- Legislative Decree of the private investment promotion framework through private and public associations and projects (Legislative Decree No. 1224) and its Regulations approved by Supreme Decree No. 410-2015-EF, which establish process and methods to promote private investments for the development of public infrastructure, public services, services related to them, applied research and/or technological innovation projects and execution of asset projects.

The Company and Subsidiaries' Management considers that they have complied with applicable standards and regulations and that no contingencies will arise from such compliance.

2. SIGNIFICANT ACCOUNTING POLICIES

Main accounting policies used by the Company and Subsidiaries for the preparation and presentation of these consolidated interim financial statements are presented below:

(a) Statement of compliance and basis of preparation and presentation

The accompanying consolidated interim financial statements were prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), effective as of September 30, 2017, including the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS) and Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) or the former Standing Interpretations Committee (SIC), adopted by the IASB. Historical cost basis was applied for these purposes. Historical cost is generally based on the fair value of the consideration given in exchange for assets.

Fair value is the price that would be received when selling an asset, or paid when transferring a liability in an organized transaction between market participants at a measurement date, regardless of the fact that such price is directly observable or considerable through another valuation technique. When estimating the fair value of an asset or liability, the Company and Subsidiaries considers the characteristics of such asset or liability in the event that market participants would want to consider them when setting a price at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined over such basis, except for shared-based payments (within the scope of IFRS 2), lease transactions (within the scope of IAS 17), and measurements somehow similar to fair value, but not fair value, such as net realizable value in IAS 2, or value in use in IAS 36.

Additionally, for financial reporting purposes, fair value measurements are categorized in three levels: 1, 2 or 3; depending on the degree in which the information for fair value measurements are observable, and their significance to fair value measurement in its entirety, as described below:

Level 1: Input is quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company may access to at the measurement date.

Level 2: Input is different than quoted prices included in Level 1, which are observable for the asset or liability, whether directly or indirectly.

Level 3: Input is not observable for the asset or liability.

(b) Functional and presentation currency

The Company and its Subsidiaries prepare and present its Consolidated Interim Financial Statements in U.S dollars, their functional currency determined by Management. The functional currency is the currency of the main economic environment in which an entity operates, which influences the selling prices of traded goods, among other factors.

(c) Foreign currency transactions

Operations performed in currencies other than the U.S dollars are considered as "foreign currency transactions", and are recognized by applying exchange rates effective at the date of transactions. At the end of each reporting period, balances of monetary items denominated in foreign currency are translated at exchange rates effective at that date. Balances of non-monetary items which are recognized in terms of historical cost in foreign currency are translated using exchange rates effective at the date of transactions.

Exchange differences derived from monetary items are recognized in net profit or loss for the period when arisen.

(d) Basis of consolidation

The accompanying consolidated interim financial statements include the accounts of the Company and of those entities controlled by the Company (Subsidiaries), as indicated in Note 1 (f). The Company considers that control of an entity is achieved when the Company has the power to govern their financial and operating policies in order to obtain benefits from their activities.

All intercompany transactions have been eliminated for consolidation. When necessary, adjustments are made to the financial statements of the Subsidiaries to bring their accounting policies into line with those used by the controlling Company.

Total comprehensive income of the Subsidiaries is attributed to the Company's shareholders and to the non-controlling owners of the Subsidiaries even in cases when these interests result in a deficit balance.

(e) Financial instruments

Financial instruments are defined as contracts that give rise simultaneously to a financial asset in a company and a financial liability or equity instrument in another company. Financial assets and liabilities are recognized when the Company and Subsidiaries becomes part of the contractual agreements of the corresponding instrument.

Financial assets and liabilities are initially recognized at fair value plus transaction costs directly attributable to the acquisition or issue of financial assets and financial liabilities, except for those classified at fair value through profit or loss, which are initially recognized at fair value and whose transaction costs, directly attributable to their acquisition or issue, are immediately recognized in profit or loss for the period.

Financial assets

Conventional purchases or sales of financial assets are recognized and derecognized using the accounting method at the contracting date, in which the following are recognized at such date: a) the asset to be received and the liability to be paid, and b) the derecognition of the asset being sold, the recognition of the possible output of the sale or disposal by other means, and the recognition of an account receivable from the buyer.

Financial assets held by the Company and Subsidiaries are classified as loans and receivables. These assets are recorded at amortized cost using the effective interest rate less any accumulated loss for recognized impairment. Income from interests is recognized using the effective interest rate, except for those short-term accounts receivable whose recognition is not considered significant. The Company and Subsidiaries does not hold financial assets that require to be classified as: Financial assets at fair value through profit or loss; held-to-maturity investments or available-for-sale financial assets, nor has it carried out transactions during the period when those classifications have been required.

Financial liabilities

Financial liabilities and equity instruments are classified in accordance with the content of contractual arrangements entered into and considering the economic substance of the contract. An equity instrument is any contract that evidences a residual interest in the Company's equity once all its liabilities are deducted.
The financial liabilities held by the Company and Subsidiaries are classified as other financial liabilities, and are recorded at amortized cost after initial recognition using the effective interest rate method, recognizing the interest expense throughout the corresponding period.

(f) Inventories

Inventories (supplies and spare parts) are stated at the lower of cost and net realizable value. Net realizable value represents the estimated selling price for inventories less all costs necessary to make the sale. Cost is determined using the weighted-average method. The estimate for obsolescence is recognized for those inventories in poor conditions and is charged to profit or loss in the year when obsolescence is identified.

(g) Property plant and equipment - Gas investments

Gas investments are presented at cost, net of accumulated depreciation and any recognized impairment loss. Initial disbursements, as well as those subsequently incurred, related to goods whose cost can be estimated reliably, and it is probable that future economic benefits will be obtained from them, are recognized as gas investments.

Disbursements for maintenance and repairs are recognized as expenses in the year when incurred. Profits or losses arising from the sale or disposal of an item of gas investments are determined as the differences between the sales proceed and the carrying amount of the asset, which is recognized in profit or loss for the period when the sale is considered, performed.

Important components and spare parts that the Company and Subsidiaries expect to use for more than one period and that are related to an item of gas investments are recognized as such at the date of acquisition.

Work in progress is presented at cost. The cost of these assets in process includes professional fees and other costs, for qualifying assets, borrowing costs. Those assets are subsequently reclassified to their category of gas investments once the construction or acquisition process is complete and they are ready for their intended use. These assets are depreciated from that moment, similarly to the rest of gas investments.

The depreciation of gas investments directly related to the gas extraction and production process and the transformation of gas liquids into natural gasoline and LPG is calculated using the units of production method. The Company determines the allocation factors of depreciation by dividing the monthly production level by proven reserves (until the termination of the concession of 30 years) of dry natural gas and natural gas liquids at the beginning of the period. Those factors are used for the determination of depreciation of each asset involved in the gas extraction and production process and the transformation of natural gas liquids into natural gasoline. The depreciation of gas investments indirectly related to the process is calculated using the straight-line method based on the estimated useful life of assets, represented by equivalent depreciation rates.

Annual depreciation is recognized as expense and is calculated considering the following:

-For gas investments, using the units of production method, depreciation factors applied to plants were:

	2017	**2016**
	%	**%**
Gas and fractionation plant	1.6, 1.7 and 7.6	5.0, 5.1 and 10.2

- For gas investments, using the straight-line basis, useful lives estimated for certain items are:

	Years
Vehicles	5
Furniture and fixtures	10
Sundry equipment	4 – 10

Estimates on useful lives, residual values, if applicable, and depreciation method are reviewed regularly at the end of each reporting period in order to ensure that the depreciation method and period are consistent with the expected pattern of economic benefits of items of gas investments, prospectively incorporating the effects of any change in these estimates against net profit or loss in the period they are made.

(h) Property, plant and equipment – Energy generation and transmission

Property, plant and equipment are presented at cost, net of accumulated depreciation and any recognized impairment loss. Initial disbursements, as well as those subsequently incurred, related to goods whose cost can be estimated reliably, and it is probable that future economic benefits will be obtained from them, are recognized as property, plant and equipment.

Disbursements for maintenance and repairs are recognized as expenses in the year when incurred. Profits or losses arising from the sale or disposal of an item of property, plant and equipment are determined as the difference between the sales proceeds and the carrying amount of the asset, which are recognized in profit or loss for the period when the sale is considered performed.

Important components and spare parts that the Company and Subsidiaries expect to use for more than one period and that are related to an item of property, plant and equipment are recognized as such at the date of acquisition.

Works in progress are presented at cost. The cost of these assets in process includes professional fees and other costs, for qualifying assets, borrowing costs. Those assets are subsequently reclassified to their category of property, plant and equipment once the construction or acquisition process is complete and they are ready for their intended use. These assets are depreciated from that moment, similarly to the rest of property, plant and equipment.

Property, plant and equipment directly related to the electrical energy generation process, which exclusively uses dry natural gas from the field of the Aguaytia and Aguaytia substation, are depreciated on the estimated useful life of the gas field of the Aguaytia, under the units of production method.

Allocation factors of depreciation are determined by dividing the monthly production level by proven reserves of dry gas at the beginning of the period, provided by the Company. Such factor is determined for each asset involved in the electrical generation process.

As of September 30, 2017 and December 31, 2016, depreciation factors applied to property, plant and equipment related to the useful life of the gas field of Aguaytia ranged between 1.6% and 1.7%, between 5.0% and 5.1%, respectively.

The substations and transmission lines: Tingo Maria, Vizcarra and Paramonga, are depreciated by the straight-line method, based on the estimated useful life of 20 years, represented by equivalent depreciation rates.

Property, plant and equipment that are not involved directly in the energy generation process are depreciated using the straight-line method based on the estimated useful life of assets, represented by equivalent depreciation rates.

Depreciation is determined using the straight-line method on the estimated useful life of property, plant and equipment, represented by equivalent depreciation rates. Annual depreciation is recognized as expense or cost of other asset and is calculated considering the useful lives estimated for the following items:

	Years
Buildings and other constructions	12 – 80
Machinery and equipment	3 – 35
Vehicles	2 – 24
Furniture and fixtures	10 – 16
Sundry equipment	2 – 28

Estimates on useful lives, residual values, if applicable, and depreciation method are reviewed regularly at the end of each reporting period in order to ensure that the depreciation method and period are consistent with the expected pattern of economic benefits of items of property, plant and equipment, prospectively incorporating the effects of any change in these estimates against net profit or loss in the period they are made.

(i) Assets held for sale

Current assets and the disposal group are classified as held for sale if its carrying amount is recovered principally through a sale transaction rather than continuing use. This condition is valid when the sale is highly probable and the non-current asset (or disposal group) is eligible for immediate sale in its present condition. In addition, Management must be committed to a plan to sell the asset, which is expected to be performed within a year from the classification date.

At the time of the recognition, the assets held for sale are measured at their fair value, therefore, the difference between the amount paid and their fair value will be recorded in profit or loss as other gains or losses resulting from discontinued operations.

When the Company is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Company will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (or disposal group) classified as held for sale shall be measured at the lower of its carrying amount and fair value less costs to sell. If a subsidiary is acquired as part of a business combination exclusively with a view to resale, it will be measured at fair value less costs to sell.

(j) Leases

Situations where the Company is the lessee

Operating leases

A lease is classified as an operating lease if the lessor does not transfer substantially all the risks and rewards incidental to ownership of an underlying asset. Payments made under an operating lease including prepayments (net of any incentive received from the lessor) are charged to profit or loss based on the straight line method in the lease term.

(k) Impairment of tangible and intangible assets other than goodwill

The Company and Subsidiaries regularly review the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). If it is not possible to estimate the recoverable amount of an individual asset, the Company and Subsidiaries estimate the recoverable amount of the cash-generating unit where the asset belongs. If a reasonable and consistent allocation basis is identified, corporate assets are also allocated to individual cash-generating units, or otherwise, to the smallest group of cash-generating units for which a reasonable and consistent allocation basis is identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

The recoverable amount is the higher of fair value less its cost to sell and value in use. Value in use is determined based on estimated future cash flows which are discounted to their present value, by using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks inherent to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is immediately recognized as expense.

An impairment loss can be subsequently reversed and recorded as income in profit for the period up to the amount in which the increased carrying amount does not exceed the carrying amount that had been determined if an impairment loss had not been recognized for the asset (or cash-generating unit) in previous years.

(l) Provisions

Provisions are recognized only when the Company and Subsidiaries have a present obligation (legal or constructive) as a result of a past event, it is probable that the Company and Subsidiaries will have to use resources which include economic benefits in order to settle such obligation and the amount of the obligation can be estimated reliably.

The amount recognized as provision reflects the best estimate of the disbursement necessary to settle the current obligation at the date of the consolidated statement of financial position, considering risks and uncertainties surrounding most of the events and circumstances concurrent to its valuation. If the amount of the provision is measured using estimated cash flows to settle the obligation, the carrying amount is the present value of corresponding disbursements.

In case it is expected that a part or the total disbursement necessary to settle the provision may be refunded by a third party, the portion receivable is recognized as an asset when its recovery is virtually certain, and the amount of such portion can be determined reliably.

(m) Contingent liabilities and assets

Contingent liabilities are not recognized in the consolidated interim financial statements, but are only disclosed in a note unless the possibility of an outflow of resources is remote. When the possibility of an outflow of resources to cover a contingent liability is remote, such disclosure is not required.

Contingent assets are not recognized in the consolidated interim financial statements, but are only disclosed in a note to the consolidated interim financial statements when it is probable that an inflow of resources will occur.

Items previously treated as contingent liabilities will be recognized in the consolidated interim financial statements in the period when a change in probabilities occurs, that is, when it is determined that an outflow of resources is probable to occur to cover such liability. Items previously treated as contingent assets will be recognized in the consolidated interim financial statements in the period when it is determined that an inflow of resources is virtually certain to occur.

(n) Employee benefits

Employee benefits include, among others, short-term benefits, such as wages, salaries and social security contributions, annual paid leaves, paid sick leaves, and profit-sharing and incentives, if paid within twelve months following the end of the period. These benefits are recognized against profit or loss for the period when the employee has provided services that entitle them to receive those benefits. These obligations are presented as part of the liabilities for employee benefits in the consolidated statement of financial position.

(o) Revenue recognition, costs and expenses

Revenue is measured using the fair value of the consideration, received or receivable, derived therefrom. Such revenue is reduced by estimates such as discounts and other similar concepts.

Sale of products, provision of services and others

- Revenue from the sale of dry natural gas, LPG and natural gasoline is recognized in the period when the good is delivered, all risks and benefits inherent to ownership have been transferred to the buyer and it is probable that economic benefits related to the transaction will flow to the Company.

- Revenue from energy and power generation and energy transmission delivered but not billed at the end of each month is billed the following month, but is recognized as revenue based on estimated consumption of customers in the corresponding month.

- Other revenue is recognized as realized and is recorded in the periods which it relates.

Interests

Revenue from interests is recognized when it is probable that the Company and Subsidiaries will receive the economic benefits associated with the transaction and the revenue amount can be measured reliably. Such revenue is accumulated on a regular basis by taking the outstanding principal balance and applicable effective interest rate as a reference.

Costs and expenses

- The cost of generation of electrical energy and energy transmission are recorded in profit or loss of the year when service is provided, simultaneously with revenue recognition. Expenses are recorded in the periods they relate to and are recognized in profit or loss of the year when accrued, regardless of the payment date.

- The payroll cost related to management, administration and maintenance are recognized when accrued.

- Other costs and expenses are recognized when accrued.

(p) Accounting in foreign currency

The Interim Financial Statements of the subsidiary Aguaytia have been prepared according to the accounting records which are carried at U.S. dollars, pursuant to article 87°, paragraph 5 of the Peruvian Tax Code, which will remain effective in accordance with the license agreement for the production of hydrocarbons (Block 31-C) (Note 1).

(q) Income tax

Income tax expense comprises estimated current income tax payable plus deferred income tax.

Current income tax is determined by applying the tax rate established under effective tax laws on net taxable income of the year.

Deferred income tax corresponds to the tax amount expected to be recovered or paid on temporary differences between reported carrying amounts of assets and liabilities, and their corresponding tax bases. Deferred income tax liabilities are generally recognized for all taxable temporary differences. Deferred income tax assets are generally recognized for all deductible temporary differences and tax credits, discounts and unused tax losses, to the extent that it is probable that the Company and Subsidiaries will have sufficient future taxable profit to make them effective. Those assets and liabilities are not recognized if temporary differences proceed from goodwill or initial recognition (except in a business combination) of other assets and liabilities in an operation that does not affect tax or accounting profit/loss.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is not probable that the Company and Subsidiaries hold sufficient future taxable profit to recover the entirety, or a part, of those assets.

Deferred income tax assets and liabilities are measured at tax rates expected to be applied when the asset is realized or the liability is settled, based on approved rates and tax laws, or whose approval process is virtually completed at the end of the reporting period. The measurement of such deferred taxes reflects tax consequences that could derive from the manner the Company and Subsidiaries expect to recover or settle the carrying amount of its assets and liabilities at the end of the reporting period.

Current and deferred income taxes are recognized as expense or income, and are included in the determination of net profit or loss for the period, except if those taxes relate to items recognized in other comprehensive income or directly in equity, in which case, current or deferred income taxes are also recognized in other comprehensive income or directly in equity, respectively.

(r) Cash and cash equivalents

Cash includes cash on hand and freely available deposits. Cash equivalents comprise short-term financial investments, maturing in less than 90 days as from the acquisition date, are readily convertible into a known cash amount and are not subject to a significant risk of changes in value.

(s) Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method of accounting. The cost of the acquisition is measured at fair value, which is calculated as the sum of the acquisition date fair values of the assets transferred, liabilities incurred to the former owners of the acquire and the equity interests issued in exchange for control of the acquiree.

The identifiable assets, liabilities and contingent liabilities (“identifiable net assets”) are recognized at their fair value at the date of acquisition. Acquisition related costs are recognized in the consolidated statement of income as incurred.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer’s previously held equity interest in the acquire (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after reassessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer’s previously held interest in the acquiree (if any), the excess is recognized immediately in profit or loss as a bargain purchase gain.

(t) Goodwill

Goodwill is assessed for impairment on an annual basis, or more often indicators of potential impairment exist. Determining whether goodwill and intangibles with indefinite lives are impaired requires an estimation of the value in use or fair value les costs to sell of the cash-generating unit and a suitable discount rate in order to calculate present value. The cash flows are derived from the budget for the next five years and do not include restructuring activities that Orazul group is not yet committed to or significant future investments that will enhance the performance of the cash generating unit being tested. The recoverable amount is most sensitive to the discount rate used as well as the expected cash flows and the growth rate used for extrapolation purposes.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

3. CRITICIAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF UNCERTAINTY

Responsibility over information and estimations made

The Company and Subsidiary Management are responsible for the information contained in these consolidated interim financial statements. For the preparation of these consolidated interim financial statements, certain estimates have been used to quantify some assets, liabilities, revenue, expenses and commitments recorded therein, based on experience and other relevant factors. Final results may differ from those estimates.

These estimates are reviewed on an ongoing basis. Changes in accounting estimates are prospectively recognized by recording the effects of changes in the corresponding profit or loss accounts for the period when corresponding reviews are conducted.

The most important estimates considered for the preparation of the consolidated interim financial statements of the Company and Subsidiaries refer to:

- Determination of functional currency and record of foreign currency transactions (Note 2 (b) and (c)).
- Estimate for energy and power revenues delivered and not billed (Note 2 (o)).
- Energy and power purchases not billed provision (Note 2 (o)).
- Estimate for electric energy transmission revenues (Note 2 (o)).
- Useful life of property, plant and equipment - gas investments (Note 2 (g)).
- Useful life of property, plant and equipment - Energy generation and transmission (Note 2 (h)).
- Impairment losses on specific assets (Note 2 (f), (g), (k)).
- Fair value in business combination (Note (s)
- Impairment of goodwill (Note 2 (t)
- Current and deferred income tax determination (Note 2 (p)).
- Probability of contingencies (Note 2 (m)).

Key sources of uncertainty in estimates

We present the following basic assumptions regarding the future and other key sources of uncertainty in estimates, at the end of the reporting period, which may imply adjustments in the carrying amounts of assets and liabilities during the next financial period.

<u>Non-current assets impairment</u>

In order to review if the assets have suffered impairment, the Company and Subsidiaries compare the carrying amount of the assets with their recoverable value at least annually and whenever there are indications, applying the accounting policy described in Note 2 (k).

The methodology used by the Company and Subsidiaries in estimating the recoverable amount of the assets is the value in use calculated from the present value of the expected future cash flows derived from the use of such assets.

The Company's Management has evaluated as a single Cash Generating Unit (CGU) all of its generation plants for the purpose of evaluating the Company's impairment; taking into account the business strategies are defined based on the client portfolio and not on an individual basis of each plant.

Fair values in business combinations

The Company accounts for business combinations using the acquisition method of accounting. This method requires the application of fair values for both the consideration given and the assets and liabilities acquired. The calculation of fair values is often predicated on estimates and judgments including future cash flows, revenue streams and value-in-use calculations. The determination of the fair values may remain provisional for up to 12 months from the date of acquisition due to the time required to obtain independent valuations of individual assets and to complete assessments of provisions. When the accounting for a business combination has not been completed as at the reporting date, this is disclosed in the financial statements, including observations on the estimates and judgments made as of the reporting date

Impairment of goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating units to which goodwill has been allocated. The value in use calculation requires the Management to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Where the actual future cash flows are less than expected, a material impairment loss may arise.

Useful life of property, plant and equipment

As described in Note 2(g), the Company and Subsidiaries review the estimated useful life of its property, plant and equipment. In 2016, the management determined with its internal specialist that there were no significant changes on regard to the useful life estimate of the assets related to the hydroelectrically plants and transmission lines. The key sources of uncertainty considered for estimation of useful life are expected physical wear and tear and technical or commercial obsolescence arising from changes in use or changes in the demand for assets.

Provisions for litigation and contingencies

The final cost of settlement of claims, claims and litigation may vary due to estimates based on different interpretations of standards, opinions and final assessments of the amount of damages. Therefore, any variation in circumstances related to this type of contingencies could have a significant effect on the amount of the provision for contingencies recorded.

Income tax and liabilities for deferred income tax

The correct valuation of income tax expense depends on several factors, including estimates of the realization of deferred tax assets and liabilities and the accrual of income tax payments. Current collections and payments may differ materially from these estimates as a result of changes in tax rules, as well as unforeseen future transactions impacting the Company's tax balances (Notes 26 and 27).

4. NEW STANDARDS AND INTERPRETATIONS INTERNATIONALLY ISSUED

(a) New IFRSs, interpretations and amendments to existent standards that did not significantly affect reported amounts and disclosures in current and previous years.

The following standards, interpretations and amendments to current standards were published with mandatory application for accounting periods beginning on or after January 1, 2017, but were not relevant to the Company and Subsidiaries operations:

- ***Amendments to IAS 12 Recognition of Deferred Tax Assets for Unrealized Losses.*** Effective for annual periods beginning on or after January 1, 2017.

  This standard amends IAS 12 Income Tax and clarifies the following:

  - Unrealized losses on debt instruments measured at fair value but at cost for tax purposes give rise to deductible temporary differences, regardless of whether the holder of the debt instrument expects to recover the carrying amount of the debt instrument until maturity or by selling it.

  - The carrying amount of an asset does not limit the estimation of probable future taxable profits.The estimates for future taxable profits exclude tax deductions resulting from the reversal of deductible temporary differences.

  - An entity assesses a deferred tax asset in combination with other deferred tax assets. In circumstances in which local tax law restricts the utilization of tax losses, an entity would assess a deferred tax asset in combination with other deferred tax assets of the same type.

- ***Amendments to IAS 7 Disclosure Initiative.*** Effective for annual periods beginning on or after January 1, 2017.

  These amendments require an entity to provide disclosures that enable users of consolidated interim financial statements to evaluate changes in liabilities arising from financing activities.

- ***Annual Improvements to IFRSs 2014 – 2016 Cycle***

  The annual improvements to IFRSs 2014 – 2016 cycle include a number of amendments to various IFRSs, which are summarized below:

  - IFRS 12 – Clarified the scope of the standard by specifying that the disclosure requirements in the standard, except for those in paragraphs B10–B16, apply to an entity's interests listed in paragraph 5 that are classified as held for sale, as held for distribution or as discontinued operations in accordance with IFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

(b) New IFRSs and interpretations issued applicable after the date of submission of the consolidated interim financial statements

The following standards and interpretations have been published for application to periods beginning after the date of presentation of these financial statements:

- ***IFRS 9 Financial Instruments.*** IFRS 9, issued in November 2009, introduced new requirements for the classification and measurement of financial assets. IFRS 9 was subsequently amended in October 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in November 2013, to include new requirements for general hedge accounting. Another revised version of IFRS 9 was issued in July 2014 mainly to include: a) impairment requirements for financial assets, and b) limited changes to the classification and measurement requirements by introducing a "fair value through other comprehensive income" (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of IFRS 9:

- IFRS 9 requires all recognized financial assets within the scope of IAS 39 *Financial Instruments: Recognition and Measurement* to be subsequently measured at amortized cost or fair value. Specifically, debt instruments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interests on the principal outstanding, are generally measured at amortized cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specific dates to cash flows that are solely payments of principal and interests on the principal amount outstanding, are generally measured at fair value through other comprehensive income. All other debt and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under IFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, only with dividend income generally recognized in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, IFRS 9 requires that the amount of change in the fair value of a financial liability that is attributable to changes in the credit risk of such liability is recognized in other comprehensive income, unless the recognition of the changes of credit risk of the liability in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under IAS 39, the entire amount of the change in the fair value of the financial liability designated at fair value through profit or loss is recognized in profit and loss.

- In relation to the impairment of financial assets, IFRS 9 requires an expected credit impairment loss model, as opposed to an incurred credit impairment loss model under IAS 39. The credit impairment loss model requires an entity to account for expected credit losses and changes in those losses at each presentation date of the financial statements to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognized.
- The new general hedge accounting requirements retain three types of hedge accounting mechanisms currently available in IAS 39. Under IFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the effectiveness test has been overhauled and replaced with the principle of an "economic relationship". Retrospective assessment of hedge effectiveness is also no longer required. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

Management believes that at the date of the consolidated interim financial statements it is not practicable to provide a reasonable estimate of the effect of the application of this standard until a detailed review has been completed.

- ***IFRS 15 Revenue from Contracts with Customers.*** Effective for periods beginning on or after January 1, 2018.

  IFRS 15, issued in May 2014, establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. IFRS 15 will supersede the current revenue recognition guidance, including IAS 18 Revenue, IAS 11 Construction Contracts and related interpretations when it becomes effective.

  The core principle of IFRS 15 is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled to in exchange for those goods or services. Specifically, this standard introduces a 5-step approach to revenue recognition:

  Step 1: Identify the contract with a customer.
  Step 2: Identify the performance obligations in the contract.
  Step 3: Determine the transaction price.
  Step 4: Allocate the transaction price to the performance obligations in the contract.
  Step 5: Recognize revenue when (or as) the entity satisfies a performance obligation.

  Under IFRS 15, an entity recognizes revenue when (or as) a performance obligation is satisfied, that is, when "control" of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in IFRS 15 to deal specific scenarios. Furthermore, extensive disclosures are required by IFRS 15.

  The Company's Management believes that the application of IFRS 15, in the future, have no a material impact on reported amounts and disclosures of the consolidated interim financial statements of the Company and Subsidiaries. However, it is not feasible to provide a reasonable estimate of the impact of IFRS 15 until the Company and Subsidiaries conducts a detailed review.

- ***IFRS 16 Leases.*** Effective for annual periods beginning on or after January 1, 2019.

  IFRS 16 establishes how to recognize, measure, present and disclose leases. This standard introduces only one accounting model, and requires lessees to recognize one asset and one liability for all leases provided they are not hired for 12 months or less, or the underlying asset has a less significant value. Lessors will continue classifying leases as operating or financial, with no further changes as they have been doing so under IAS 17.

  As of September 30, 2017, the Company and its Subsidiaries have non-cancellable operating lease commitment of US$881 per year for office space. IAS 17 does not require the recognition of any right-of-use or liability for future payments for these leases; instead, certain information is disclosed as operating lease commitment. A preliminary assessment indicates that this arrangement may meet the definition of a lease under IFRS 16, and hence the Company and its Subsidiaries will not recognize a right-of-use asset and a corresponding liability in respect of all these unless they qualify for short-term leases upon the application of IFRS 16. The new requirement to recognize right-of-use assets and a related liability is expected to have an impact on the amounts recognized in the consolidated interim financial statements and the Management is currently assessing its potential impact. It is not practicable to provide a reasonable estimate of the financial effect until the directors complete the review.

In contrast, for finance leases where the Company and its Subsidiaries is a lessee, as they already recognize an asset and a related finance lease liability for the lease arrangement, the Management does not anticipate that the application of IFRS 16 will have a significant impact on the amounts recognized in the consolidated interim financial statements.

- ***IFRS 17 Insurance Contracts.*** Effective for annual periods beginning on or after January 1, 2021.

  IFRS 17 requires insurance liabilities to be measured at a current fulfillment value and provides a more uniform measurement and presentation approach for all insurance contracts. These requirements are designed to achieve the goal of a consistent, principle-based accounting for insurance contracts. IFRS 17 supersedes IFRS 4 Insurance Contracts as of 1 January 2021.

- ***IFRIC 22 Foreign Currency Transactions and Advance Consideration.*** Effective for annual periods beginning on or after January 1, 2018.

  The interpretation addresses foreign currency transactions or parts of transactions where:

  - There is consideration that is denominated or priced in a foreign currency;

  - The entity recognizes a prepayment asset or a deferred income liability in respect of that consideration, in advance of the recognition of the related asset, expense or income; and

  - The prepayment asset or deferred income liability is non-monetary.

  The Interpretations Committee came to the following conclusion:

  - The date of the transaction, for the purpose of determining the exchange rate, is the date of initial recognition of the non-monetary prepayment asset or deferred income liability.

  - If there are multiple payments or receipts in advance, a date of transaction is established for each payment or receipt.

  Management is evaluating the possible impact that this interpretation will have in the consolidated interim financial statements.

- ***IFRIC 23 Uncertainty over Income Tax Treatments*** Effective for annual periods beginning on or after January 1, 2019.

  The interpretation addresses the determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates, when there is uncertainty over income tax treatments under IAS 12. It specifically considers:

  - Whether tax treatments should be considered collectively
  - Assumptions for taxation authorities' examinations
  - The determination of taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
  - The effect of changes in facts and circumstances

- ***Amendments to IFRS 10 and IAS 28: Sale or Contribution of Assets between an Investor and its Associate or Joint Venture***. The date of effective application of these amendments has been determined to be indefinite.

These amendments deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, these amendments state that profits or losses resulting from the loss of control of a Subsidiaries that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method are recognized in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, profits and losses resulting from the remeasurement of investments retained in any former Subsidiaries (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

Management believes that the amendments to this standard are not applicable to the Company and Subsidiaries since it does not have associates or joint ventures.

- ***Clarifications to IFRS 15 Revenue from Contracts with Customers.*** Effective for annual periods beginning on or after January 1, 2018.

  These clarifications deal with three aspects of the standard (identification of performance obligations, principal versus agent considerations, and licenses) and provides a transition guidance for modified and finished contracts.

  Management is evaluating the possible impact that amendment will have on the consolidated interim financial statements.

- ***Amendments to IFRS 2 Classification and Measurement of Share-based Payment Transactions.*** Effective for annual periods beginning on or after January 1, 2018.

  These amendments clarify the standard in relation to the accounting for cash-settled share-based payment transactions that include a performance conditions, the classification of share-based payment transactions settled with net of tax withholdings and the accounting for the modification of share-based payment transactions from cash-settled to equity-settled.

  Management believes that this amendment will not have a material impact on the consolidated interim financial statements since the Company and Subsidiaries do not have share-based payment plans.

- ***Amendments to IFRS 4. Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts.*** The overlay approach should be applied when IFRS 9 is used for the first time. The deferral approach should be applicable for annual periods beginning on or after January 1, 2018 and can only be available for three years after such date.

  These amendments provide two options for entities that issue insurance contracts within the scope of IFRS 4:

  - An option that permits entities to reclassify, from profit or loss to other comprehensive income, some of the income of expenses arising from designated financial assets (the "overlay approach").

  - An optional temporary exemption from applying IFRS 9 for entities whose predominant activity is issuing contracts within the scope of IFRS 4 (the "deferral approach").

  The application of both approaches is optional and an entity is permitted to stop applying them before the new insurance contracts standard is applied.

Management believes that this amendment will not have a material impact on the consolidated interim financial statements since the Company and Subsidiaries does not issue contracts that can be classified as such within the scope of IFRS 4 Insurance Contracts.

- ***Amendments to IAS 40 Transfers of Investment Property.*** Effective for annual periods beginning on or after January 1, 2018.

  The amendments in IAS 40 Investment Property are:

  - Paragraph 57 has been amended to state that an entity shall transfer a property to, or from, investment property when, and only when, there is evidence of a change in use. A change of use occurs if property meets, or ceases to meet, the definition of investment property. A change in management's intentions for the use of a property by itself does not constitute evidence of a change in use.

  - The list of evidence in paragraph 57(a) – (d) was designated as non-exhaustive list of examples instead of the previous exhaustive list.

  Management believes that this amendment is not applicable to the Company and Subsidiaries since it does not have investment property.

- ***Annual Improvements to IFRSs 2014 – 2016 Cycle***

  The annual improvements to IFRSs 2014 – 2016 cycle include a number of amendments to various IFRSs, which are summarized below:

  - IFRS 1 – Deleted the short-term exemptions in paragraphs E3–E7 of IFRS 1, because they have now served their intended purpose.

  - IAS 28 – Clarified that the election to measure at fair value through profit or loss an investment in an associate or a joint venture that is held by an entity that is a venture capital organization, or other qualifying entity, is available for each investment in an associate or joint venture on an investment-by-investment basis, upon initial recognition.

  The amendments to IFRS 1 and IAS 28 are effective for annual periods beginning on or after January 1, 2018.

  Management believes that the amendments to these standards are not applicable to the Company and Subsidiaries since do not execute those types of operations.

- ***Prepayment Features with Negative Compensation (Amendments to IFRS 9)*** Effective for annual periods beginning on or after January 1, 2019.

  Amends the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortized cost (or, depending on the business model, at fair value through other comprehensive income) even in the case of negative compensation payments.

  Management believes that the amendments to these standards are not applicable to the Company and Subsidiaries since do not execute those types of operations.

- ***Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)*** Effective for annual periods beginning on or after January 1, 2019.

Clarifies that an entity applies IFRS 9 Financial Instruments to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied.

Management believes that the amendments to these standards are not applicable to the Company and Subsidiaries since do not execute those types of operations.

5. FINANCIAL INSTRUMENTS AND FINANCIAL RISK

Categories of financial instruments

The financial assets and liabilities of the Company and Subsidiaries comprise the following:

	2017	2016
	US$000	**US$000**
Financial assets:		
Loans and receivables (including cash and cash equivalents)		
Cash and cash equivalents	21,380	85,213
Trade accounts receivable (net)	22,071	22,719
Other accounts receivable	1,633	1,305
Accounts receivable from related entities	102,489	198
Total	147,573	109,435
Financial liabilities:		
At amortized cost		
Financial obligations	552,720	512,778
Trade accounts payable	10,103	16,738
Other accounts payable	203	607
Accounts payable to related entities	273,348	340,641
Total	836,374	870,764

Financial risks

The Company and Subsidiaries are constantly exposed to credit, liquidity and market risks, which arise from the variation of exchange. These risks are concentrated on electrical energy markets and are managed through specific policies and procedures established by the Financial Management. The Financial Management area is in charge of dealing with risks, and identifies, evaluates and covers financial risks.

(a) Market risk

(i) Exchange rate risk

The Company and Subsidiaries mainly bill in Peruvian soles. The exchange rate risk in the Company and Subsidiaries mainly arises from cash and cash equivalents, trade accounts receivable trade accounts payable and liabilities for employee benefits held in foreign currency. The Company and Subsidiaries do not use derivative financial instruments to cover its exposure to exchange rate risk.

The carrying amount of monetary assets and liabilities in foreign currency as of September 30, 2017 and December 31, 2016, reflected according to the basis of accounting described in Note 2 (c) to the consolidated interim financial statements, is presented below:

	2017	2016
	S/.000	S/.000
Assets:		
Cash and cash equivalents	12,259	6,472
Trade accounts receivable	65,657	50,314
Total	77,916	56,786
Liabilities:		
Trade accounts payable	11,100	10,382
Liabilities for employee benefits	6,009	25,009
Total	17,109	35,391
Asset position (net)	60,807	21,395

The balances of financial assets and liabilities in foreign currency correspond to balances in Peruvian soles and are expressed in U.S. dollars at the supply and demand exchange rates published by Superintendencia de Banca, Seguros y AFP – SBS (Superintendence of Banking, Insurance and Private Pension Fund Administrators), effective at those dates, which were US$0.3053 for selling and US$0.3055 for buying (US$0.2976 for selling and US$0.2983 for buying as of December 31, 2016) per US$1.00.

As of September 30, 2017, the Company and Subsidiaries recorded foreign exchange profit net for US$672 (US$12 in September 2016 (Note 1(d)), whose net amount is included in item exchange difference, net in the consolidated statement of profit or loss and other comprehensive income.

Management considers a sensitivity rate of 10% as reasonable in the evaluation of exchange rate risk. A sensitivity analysis assuming the revaluation/devaluation of the Peruvian Soles (S/), equivalent at the aforementioned rates, exclusively on balances of monetary assets and liabilities reflected above, is detailed in the following table:

	Increase (decrease in): Exchange rate	Effect on profit (loss) before income tax and equity
	%	US$000
2017:		
US$ / Soles	+10%	(1,856)
US$ / Soles	-10%	1,856
2016:		
US$ / Soles	+10%	(637)
US$ / Soles	-10%	637

(ii) Interest rate risk

The Company and Subsidiaries have financial assets related to loans granted to related entities that accrue interests at fix rate. Sales and operating cash flows of the Company and Subsidiaries are independent of changes in market interest rates.

The policy of the Company and Subsidiaries is to maintain borrowings at fixed interest rates. In this regard, short and long-term debts at fixed rates represent all total financial debt as of September 30, 2017 and December 31, 2016 therefore; any change in interest rates would not adversely affect profit or loss of the Company and Subsidiaries.

(b) Credit risk

Credit risk refers to the event that the other party fails to meet their contractual obligations, which causes a financial loss for the Company and Subsidiaries. Financial instruments that partially expose the Company and Subsidiaries to credit risk concentrations mainly comprise cash and cash equivalents and trade accounts receivable.

Management considers that this risk is mitigated since trade accounts receivable are concentrated on highly renowned entities in the international market and the policy of the Company and Subsidiaries to continuously assess the credit records of customers as well as their financial conditions to meet their obligations.

Regarding deposits in banks, the Company and Subsidiaries place their liquidity excess in renowned financial institutions, establish conservative credit policies and constantly evaluate existing conditions in the market they operate. As a result, the Company and Subsidiaries do not estimate significant losses arising from this risk.

(c) Liquidity risk

Management is mainly responsible for dealing with liquidity risk for which it has established policies and procedures regarding short, medium and long term debts. The Company and Subsidiaries manage liquidity risk by monitoring their cash flows and the maturities of their financial assets and liabilities.

The analysis of financial liabilities, including interest payable of the Company and Subsidiaries, classified per maturity, considering the remaining period to reach such maturity at the date of the consolidated statement of financial position, is presented below:

	Less than 1 year	**Between 1 and 2 years**	**Between 2 and 5 years**	**More than 5 years**	**Total**
	US$000	**US$000**	**US$000**	**US$000**	**US$000**
2017:					
Financial obligations	12,899	30,938	30,938	782,031	856,806
Trade accounts payable	10,103	-	-	-	10,103
Other accounts payable	1,965	-	-	-	1,965
Accounts payable to related entities	132,358	-	-	-	132,358
Total	157,325	30,938	30,938	782,031	1,001,232

	Less than 1 year	**Between 1 and 2 years**	**Between 2 and 5 years**	**More than 5 years**	**Total**
	US$000	**US$000**	**US$000**	**US$000**	**US$000**
2016:					
Financial obligations	18,108	67,500	67,500	404,196	557,304
Trade accounts payable	16,738	-	-	-	16,738
Other accounts payable	3,963	-	-	-	3,963
Accounts payable to related entities	454	-	-	-	454
Total	39,263	67,500	67,500	404,196	578,459

Management handles the risk associated with the amounts included in each one of the categories mentioned above, which include maintaining good credit history with local banks in order to ensure sufficient credit lines and also pay its working capital with cash flows provided by its operations.

(d) Fair value of financial instruments

Fair value is defined as the amount for which a financial instrument could be exchanged in a transaction between two willing parties, which should not be a forced sale or settlement, and the best evidence of its value is its price, if any.

As of September 30, 2017 and December 31, 2016, Management of the Company and Subsidiaries considers that the accounting values of their financial instruments are similar to their fair values estimated in the market, based on methodologies and assumptions indicated below:

- The item cash and cash equivalents does not represent a significant credit or interest rate risk, so it has been assumed that the carrying amount is similar to fair value.

- Accounts receivable and payable mature, except for the non-current account payable to related entity, in less than one year, so it has been considered that their fair value is not significantly different than their carrying amount. The Company's management considers that the carrying amount of the non-current account payable to related entity approximate their fair value, since the receivable accrued an interest rate that is similar to market interest.

- For the calculation of such fair value, Management has projected each long-term debt according to the terms and conditions established at the contracting date and has discounted them at interest rates obtained from the Superintendence of Banking and Insurance, current in the market. Market rates have been obtained through bank quotations received by the Company. This fair value is classified as Level 2 since the measurement corresponds to variables that are based on observable market data, either directly or indirectly, other than quoted prices included in Level 1.

- Management considers that the fair values of other financial liabilities are similar to their carrying amount due to their short-term maturity, except for financial obligations (Note 15) and accounts payable to related entities (Note 9).

6. CASH AND CASH EQUIVALENTS

Cash and cash equivalents comprise the following:

	2017	**2016**
	US$000	**US$000**
Cash on hands and banks (a)	13,456	68,213
Time deposits (b)	7,924	17,000
Total	21,380	85,213

(a) Cash on hands and banks mainly comprise checking accounts and correspond to balances held in local and foreign banks, in Peruvian soles and U.S. dollars, and are freely available.

(b) As of September 30, 2017 and December 31, 2016, term deposits correspond to funds held by the Company and Subsidiaries in local banks, in U.S. dollars, which mature in between 1 and 9 days and accrue interests at an annual rate of 0.5%-1.04% and 0.2% respectively.

7. TRADE ACCOUNTS RECEIVABLE (NET)

Trade accounts receivable (net) comprises the following:

	2017	2016
	US$000	US$000
Energy and power delivered not billed	13,570	16,338
Invoices	26,556	18,518
Estimate for services provided not billed	-	74
Total	40,126	34,930
Impairment estimate	(18,055)	(12,211)
Total	22,071	22,719

The average credit period granted to customers of the Company and Subsidiaries ranges between 7 and 15 days.

Once the terms indicated above expire, overdue balances accrue interests. The interest is determined by the annual average of the active and passive rate of the local and foreign currency. As of September 30, 2017, the annual average rate for the Company and Subsidiaries are 10.00% and 3.73% for local and foreign currency, respectively (10.31% and 3.90% as of December 31, 2016 for local and foreign currency, respectively).

As of September 30, 2017, the Company and Subsidiaries hold accounts receivable within their maturity terms for US$17,293 (US$16,685 as of December 31, 2016).

As of September 30, 2017, the Company and Subsidiaries hold trade accounts receivable overdue but not impaired trade accounts receivable for US$4,778 (US$6,034 as of December 31, 2016), for which no impairment estimate of accounts receivable has been determined since their credit quality has not varied significantly, and Management of the Company and Subsidiaries considers that those amounts are still recoverable.

The aging of these balances is summarized as follows:

	2017	2016
	US$000	US$000
Overdue for up to 30 days	3,113	5,634
Overdue between 31 and 90 days	1,665	400
Total	4,778	6,034

Energy and power delivered not billed

Energy and power delivered but not billed corresponds to the consideration for power and energy that the Economic Operation Committee of the National Interconnected System (COES-SINAC) monthly allocates to each generator and communicates to be billed to other generators or distributors, members of SINAC. Such energy and power basically corresponds to sales performed in December.

As of September 30, 2017 and December 31,2016, estimated energy delivered but not billed includes the amount of US$487 corresponding to consumptions of power and energy of customers (distribution companies) without contracts, under the scope of Law No. 29179 and Emergency Decree No. 049-2008, according to Note 1 (h) of the consolidated interim financial statements.

Energy and power delivered but not billed as of September 30, 2017 and December 31, 2016 was billed and collected substantially in Octuber2017 and January respectively, except the impaired estimate amount, with no significant changes.

Impairment estimate of accounts receivable

The movement of the impairment estimate of accounts was as follows:

	2017	2016
	US$000	US$000
Opening balance	12,211	3,598
Additions (Note 22)	5,844	8,940
Collections (Note 22)	-	(331)
Exchange difference	-	4
Closing balance	18,055	12,211

The impairment estimate of accounts receivable is determined according to policies established by Management. This estimate is recognized considering, among other factors, uncollected balances for more than 90 days, the possibilities to be collected, and the evidence of financial difficulties of the debtor that will increase, beyond normal, the uncollectible risk of uncollected balances, so that its amount has a level that Management estimates appropriate to cover possible losses in accounts receivable at the date of the consolidated statement of financial position. The estimate amount is recognized against profit or loss of the year. Subsequent collections are recognized against profit or loss of the year. Basic criteria to derecognize impaired financial assets against such valuation account are: (i) depletion of the collection process, including enforcement of guarantees, and (ii) the debtor’s financial difficulties that evidence the inability to enforce the collection of accounts receivable.

The aging of accounts receivable and the status of customers are constantly monitored to ensure the appropriateness of the estimate in the consolidated interim financial statements. As a result, Management considers that the impairment estimate of accounts receivable covers sufficiently the risk of loss of doubtful accounts as of September 30, 2017 and December 31, 2016.

During 2017, the higher credit risk that faced Aguaytia is the un-collectability on the invoices issued to Maple for natural gasoline sales. The impairment estimate for this customer was US$5,844 (US$8,609 in December 2016) recognized in 2017.

8. OTHER ACCOUNTS RECEIVABLE

Other accounts receivable comprise the following:

	Current		Non Current	
	2017	2016	2017	2016
	US$000	US$000	US$000	US$000
Financial assets:				
Claims to COES	101	139	-	-
Fund for the stabilization of fuel prices	736	220		
Sundry items	796	946	-	-
Sub total	1,633	1,305	-	-
Non-financial assets:				
Credits on Value Added tax (a)	1,799	799		
Credit on Temporary Taxes on net assets - ITAN (b)	- -	91	464	448
Income tax asset (c)	-	-	496	477
Claims to SUNAT	-	-	420	409
Total	3,432	2,195	1,380	1,334

(a) As of September 30, 2017 and December 31, 2016, the balance corresponds to credit on value added tax (VAT) which will be compensated on future periods.

(b) Claims to third parties correspond to temporary tax on net assets (ITAN):

(i) Eteselva: As of September 30, 2017 and December 31, 2016, this item refers to ITAN from 2006, and 2007. During 2008, Eteselva submitted a return request for years 2006 and 2007 to the Tax Administration, which was partially disallowed, and an appeal is currently being processed at the Tax Court. On January and June 2015, the Tax Administration refunded an amount of S/370 and S/351 equivalent to US$124 and US$111, respectively, corresponding to ITAN from 2010 and 2011, respectively.

(ii) Termoselva: As of September 30, 2017 and December 31, 2016, this item refers to ITAN from 2006 and 2007 for S/606 (equivalent to US$178) and S/343 (equivalent to US$101), respectively. During 2008, the Company submitted a return request for ITAN from 2006 and 2007 to the Tax Administration. After the tax review of those periods, the Tax Administration partially disallowed the return of ITAN, and an appeal is currently being processed at the Tax Court. In November 2017, the Tax Administration proceeded to refund in favor of Eteselva the amount of US$ 443 (The difference amount between the refund and the account receivable are interests).

Subsidiaries Termoselva and Eteselva have the right to request the return within a period of 4 years after having submitted the pertinent tax return to the Tax Administration. Management considers that these ITAN balances will be recovered in the long term.

(c) As of September 30, 2017 and December 31, 2016, this item comprises the balance in favor of income tax of Eteselva, regarding the payments on account made in 2005, whose total amount exceeded the provision for income tax of such year. In December 2010, the Management submitted a return request to the Tax Administration, which was disallowed. In October 2012, the Management filed an appeal before the Tax Court. Up to date, it is pending the resolution from the Tax Court.

9. BALANCES AND TRANSACTIONS WITH RELATED ENTITIES

The parent company of the Company and Subsidiaries is Orazul Energía (UK) Holdings Ltd.

During 2017and 2016, the Company and Subsidiaries performed the following significant transactions with related entities in the normal course of operations:

	Financial income / expenses		**Others**		
2017	**Income**	**Expenses**	**Loans received**	**Loans granted**	**Other service**
	US$000	**US$000**	**US$000**	**US$000**	**US$000**
Goldwat BD, S.L. -Spain (b)	2,973	-	-	80,684	-
Orazul Energía (España) Holding S.R.L. (b)	-	426	131,851	-	-
Orazul Energia Management LLC -Delaware (b)	-	-	-	-	176
DEI Nehuen Generacion, SPA (b)	-	-	-	-	169
Orazul Energía (UK) Holdings Ltd. - UK (a)	-	11,703	127,950	-	-
Total	2,973	12,129	259,801	80,684	345

	Financial income / expenses		**Others**	
2016	**Income**	**Expenses**	**Loans received**	**Loans granted**
	US$000	**US$000**	**US$000**	**US$000**
Orazul Energía (UK) Holdings Ltd. - UK (a)	-	-	373	-
Orazul Energia Partners LLC (b)	-	1,337	338,850	-
Total	-	1,337	339,223	-

(a) Parent company
(b) Related entity

These transactions, and other less relevant, resulted in the following balances receivable from and payable to the related entity:

	Relationship	2017 US$000	2016 US$000
Non-trade accounts receivable:			
Orazul Energy Guatemala y CIA, S.C.A (a)	Related entity	18,255	-
Orazul Energia Management LLC -Delaware	Related entity	176	-
DEI Nehuen Generacion, SPA	Related entity	169	-
Orazul Energia Partners LLC	Related entity	-	64
Other related entities	Related entity	232	134
Sub total		18,832	198
Loans granted - current portion:			
Goldwat BD, S.L. -Spain (b)	Related entity		
Capital		80,684	-
Interests		2,973	-
Sub total		83,657	-
Total		102,489	198
Non-trade payable accounts:			
Orazul Energía (UK) Holdings Ltd. - UK	Parent company	-	373
Other related entities		81	81
Sub total		81	454
Loans - current portion:			
Orazul Energía (España) Holding S.R.L. (c)	Related entity		
Capital		131,851	-
Interests		426	-
Sub total		132,277	-
Total		132,358	454
Loans - non-current portion (d)			
Orazul Energia Partners LLC	Related entity		
Capital		-	338,850
Interests		-	1,337
Total		-	340,187
Orazul Energía (UK) Holdings Ltd. - UK	Parent company		
Capital		127,950	-
Interests		13,040	-
Total		140,990	-

(a) Corresponds to account receivable, it is expected to be able to collect it in the short term, and do not accrue interest.

(b) On January 4, 2017, the Company transferred in favor of Goldwat BD, S.L.-Spain its investment in Duke Energy Guatemala Ltd. and Duke Energy International El Salvador Investements N°.1 S.á r.l. for US$80,684; with an unsecure promissory note. The note matures on January 2027 and accrues 5% interest per year.

(c) On August 2, 2017 the Company acquired to Orazul Energía (España) Holding S.R.L. the 12.76% of its participation in Orazul Energy Group S.A.C., the parties agreed a price of US$131,851 to be paid by an unsecure promissory note. Such note accrues interest of 5% per year.

(d) On December 20, 2016 Orazul Energía Partners LLC, granted a loan in favor of the Company for US$255,900, the initial rate was of 12% per year with maturity in 2026. On July 4, 2017, Orazul Energía Partners LLC, transfers to Orazul Energia (UK) Holdings Ltd all rights, title and interest, by the original principal amount of US$255,900 with a change in the rate to 6%. In the same date Orazul Energia (UK) Holdings Ltd. approved the capitalization of 50% of the loan, increasing the capital stock issued of the Company.

Additionally, in December 2016 Orazul Energía Partners LLC, granted a loan for US$ $82,950, which was canceled in March 2017.

Remunerations to key personnel

Remunerations paid to key personnel who have the authority and responsibility of planning, managing and controlling the activities of the Company, whether directly or indirectly, amounted to US$1,317 in 2017 and US$2,370 in 2016.

10. INVENTORIES (NET)

Inventories (net) comprise the following:

	2017 US$000	2016 US$000
Supplies and spare parts	6,402	7,230
Fuel and lubricants	1,813	111
	8,215	7,341
Obsolescence estimate	(816)	(1,318)
Total	7,399	6,023

The movement of the obsolescence estimate of inventories was as follows:

	2017 US$000	2016 US$000
Opening balance	1,318	1,166
Increase (Note 20)	-	302
Recovery (Note 20)	(502)	(150)
Closing balance	816	1,318

The obsolescence estimate of inventories was determined based on external technical reports. Management believes that this estimate covers the obsolescence risk appropriately as of September 30, 2017 and December 31, 2016.

11. ASSETS HELD FOR SALE

As of September 30, 2017, assets held for sale correspond to the net investment holds in Chile. As of December 31, 2016, assets held for sale corresponded to the net investment held in Chile and Central America (Guatemala and El Salvador) which carrying amount was US$184,215 and US$324,042, respectively.

	Group Cooperatie U. A (Chile)	Orazul Energy Guatemala and El Salvador (Central America)	Total
	US$000	US$000	US$000
As of October 10, 2016	-	-	-
Additions			
Adquisition cost	184,216	324,042	508,258
As of December 31, 2016	184,216	324,042	508,258
Additions			
Profit or loss of the year for discontinued operations (b)	1,428	-	1,428
Disposals			
Disposal of Central America business (a)	-	(324,042)	(324,042)
As of September 30, 2017	185,644	-	185,644

(a) On January 4, 2017, the Company transferred in favor of Goldwat BD, S.L.-Spain (related party) its operating business in Guatemala and El Salvador with a carrying amount of US$324,042 and a price value of US$80,684 (Note 9(a)). The Company recognized a loss on sale classified as discontinued operations of U$$225,210 (net loss of US$243,359 offset by the recognition of other accounts receivable of US$18,148 (Note 9(d))).

In the 2016, the Company recorded in the statement of profit or loss and other comprehensive income a bargain purchase gain by US$382,656 for the Chilean (US$139,298) and Central America operating businesses (US$243,358) (Note 28).

On September 30, 2017 and December 31, 2016, financial information for assets and liabilities of businesses held for sale is the following:

	As of 9/30/2017	As of 12/31/2016
	US$000	**US$000**
Operating business in Chile		
Statements of financial position		
Assets		
Current Assests	34,803	25,951
Non- current Assets	76,335	406,718
Total assets	111,138	432,669
Liabilities		
Current liabilities	1,153	25,507
Non-current liabilities	76,430	264,726
Total liabilities	77,583	290,233
Equity	33,555	142,436
Total liabilities and equity	111,138	432,669

	For the period of 1/1/2017 and 9/30/2017	As of 12/31/2016
Statements of profit or loss and other comprehensive income	**US$000**	**US$000**
Sales	9,675	38,297
Cost of sales	(5,958)	(30,737)
Gross profit	3,716	7,560
Net expenses	(2,370)	(21,219)
Profit before income tax	1,346	(13,659)
Income tax expense	83	3,670
Net profit for the period	1,429	(9,989)
Other comprehensive income for the period	(109,944)	-
Total comprehensive income for the period	(108,515)	(9,989)

	For the period of 1/1/2017 and 9/30/2017	As of 12/31/2016
Consolidated statements of cash flows	**US$000**	**US$000**
Operating activities:	6,158	3,604
Investment activities:	(4,221)	(222)
Financing activities:	(7,947)	(1,388)
Cash and cash equivalents at the beginning of the period	14,461	15,477
Cash and cash equivalent at the end of the period	8,451	17,471

Operating business in Central America (Guatemala and El Salvador)	2016 US$000
Statements of financial position	
Assets	
Current Assests	128,183
Non- current Assets	242,336
Total assets	370,519
Liabilities	
Current liabilities	25,573
Non-current liabilities	17,981
Total liabilities	43,554
Equity	326,965
Total liabilities and equity	370,519

Statements of profit or loss and other comprehensive income	**2016 US$000**
Sales	187,866
Cost of sales	(164,374)
Gross profit	23,492
Net expenses	(108,141)
Profit before income tax	(84,649)
Income tax expense	(7,075)
Net profit for the period	(91,724)
Loss on sale due to discontinued operations	(2,376)
Total comprehensive income for the period	(94,100)

Consolidated statements of cash flows	**2016 US$000**
Operating activities:	21,608
Investment activities:	(4,679)
Financing activities:	(38,325)
Cash and cash equivalents at the beginning of the period	45,922
Effect of exchange difference on cash and cash equivalents	2,375
Cash and cash equivalent at the end of the period	26,901

Plan to dispose Chile operations

On December 2016, Management announced a plan to dispose of the operation in Chile. The disposal is consistent with the Company's perspective to focus its activities on the operations in Peru. The Company expects to transfer this investment in 2018 to other related entities. The Company has not recognized any impairment losses in respect of the operations in Chile, as of September 30, 2017 and December 31, 2016.

12. PROPERTY, PLANT AND EQUIPMENT (NET) – ENERGY GENERATION AND TRANSMISSION

The movement in the cost, accumulated depreciation and impairment loss of property, plant and equipment (net) during 2017 and 2016 were as follows:

	Land US$000	Buildings and other constructions US$000	Machinery and equipment US$000	Vehicles US$000	Furniture and fixtures US$000	Sundry equipment US$000	Cost for disposal of assets US$000	Constructions in process US$000	Total US$000
COST:									
As of January 01, 2016	3,036	344,089	416,200	3,154	1,619	16,568	40	4,010	788,716
Additions	-	-	-	-	-	-	-	6,295	6,295
Sales	-	(616)	(14,383)	(89)	(40)	(327)	-	-	(15,455)
Transfers	-	1,914	3,083	235	32	2,264	-	(7,528)	-
Purchase price allocation (Note 28)	5,871	2,445	59,128	740	178	2,667	-	920	71,949
As of December 31, 2016	8,907	347,832	464,028	4,040	1,789	21,172	40	3,697	851,505
Additions	-	-	-	-	-	-	-	574	574
Sales	(184)	(3,516)	(13)	(120)	(321)	(866)	-	-	(5,020)
Transfers	-	83	70	119	-	457	-	(729)	-
Difference in change	100	12,100	8,018	115	38	617	-	794	21,782
As of September 30, 2017	8,823	356,499	472,103	4,154	1,506	21,380	40	4,336	868,841
ACCUMULATED DEPRECIATION:									
As of January 01, 2016	-	166,974	267,354	2,059	1,187	12,303	40	-	449,917
Additions	-	5,935	11,673	426	75	1,177	-	-	19,286
Sales and disposals	-	(355)	(11,449)	(84)	(36)	(297)	-	-	(12,221)
As of December 31, 2016	-	172,554	267,578	2,401	1,226	13,183	40	-	456,982
Additions	-	4,635	7,397	342	29	1,077	-	-	13,480
Sales and disposals	-	(1,840)	(5)	(108)	(296)	(844)	-	-	(3,093)
Difference in change	-	6,391	6,021	94	36	476	-	-	13,018
As of September 30, 2017	-	181,740	280,991	2,729	995	13,892	40	-	480,387
IMPAIRMENT LOSS:									
As of January 01, 2016	-	829	8,316	1	1	34	-	-	9,181
Recovery	-	-	(2,984)	-	-	-	-	-	(2,984)
As of December 31, 2016	-	829	5,332	1	1	34	-	-	6,197
Recovery	-	(22)	(51)	-	-	-	-	-	(73)
Difference in change	-	(292)	75	(1)	(1)	(29)			(248)
As of September 30, 2017	-	515	5,356	-	-	5	-	-	5,876
NET COST:									
Total as of September 30, 2017	8,823	174,244	185,756	1,425	511	7,483	-	4,336	382,578
Total as of December 31, 2016	8,907	174,449	191,118	1,638	562	7,955	-	3,697	388,326

The expense for depreciation of the period of property, plant and equipment for nine-month period ended on September 30, 2017 and 2016 have been recorded in the following items in the consolidated statement of profit or loss and other comprehensive income:

	2017	2016
	US$000	**US$000**
Costs of sale of electrical energy (Note 21)	13,204	14,583
Administrative expenses (Note 22)	276	265
Total	13,480	14,848

(a) Relevant sales of property, plant and equipment correspond to the following:

- In 2017, the Company entered into a purchase agreement for US$4,001 with Protecta SA Compañia de Seguros for the sale of buildings and equipment related to offices located in Pardo & Aliaga (San Isidro – Lima), whose carrying amount was US$ 1,813 and gave rise to a net profit of US$2,188.

- In 2016, correspond to machinery and equipment sale, related to Thermoelectric Piura Plant. The Company sold this equipment for US$152 to ECJ Technology S.A. Disposals carrying amount, net of impairment, amounts to US$46. This sale generated a net income of US$106.

(b) Accumulated impairment loss as of September 30, 2017 and December 31, 2016 mainly corresponds to the impairment of thermoelectric power plants for US$5,356 y US$5,332 respectively, since their carrying amounts exceeded their recoverable values. Management of the Company and Subsidiaries considers that, as of September 30, 2017 and December 31, 2016, provisions are no longer required, other than the estimate previously recognized in the records for the impairment of property, plant and equipment. The recovery of impairment during 2016 was as consequence of the sale of assets described in paragraph (a), and it is offset with the net profit.

(c) As of September 30, 2017 and December 31, 2016, the Company and Subsidiaries do not have commitments for the acquisition of property, plant and equipment.

(d) According to the policies established by Management, as of September 30, 2017 and December 31, 2016, the Company and Subsidiaries have hired insurance policies to cover the potential risks to which certain items of their property, plant and equipment are subject, as well as possible claims that may be filed due to the performance of their operations. The Company and Subsidiaries understand that those insurance policies sufficiently cover the risks they are exposed to.

13. PROPERTY, PLANT AND EQUIPMENT (NET) - GAS INVESTMENTS

The movement in the cost and accumulated depreciation of property, plant and equipment – gas investments during 2017 and 2016 were as follows:

	Gas and fractionation plant	Vehicles	Furniture and fixture	Sundry equipment	Works in progress	Total
	US$000	US$000	US$000	US$000	US$000	US$000
COST:						
As of January 2016	119,938	150	279	748	8,217	129,332
Additions	-	-	-	-	7,776	7,776
Disposals	(20)	-	-	(9)	-	(29)
Transfers and others	7,822	-	70	88	(7,980)	-
Purchase price allocation (Note 28)	5,439	81	62	152	-	5,734
As of December 31, 2016	133,179	231	411	979	8,013	142,813
Additions	-	-	-	-	7,808	7,808
Disposals	(3)	(20)	-	(3)	-	(26)
As of September 30, 2017	133,176	211	411	976	15,821	150,595
ACCUMULATED DEPRECIATION:						
As of January 2016	73,868	141	265	434	-	74,708
Additions	3,677	10	11	87	-	3,785
Disposals	(17)	-	-	(6)	-	(23)
As of December 31, 2016	77,528	151	276	515	-	78,470
Additions	2,295	-	8	63	-	2,366
Disposals	-	(21)	-	(2)	-	(23)
As of September 30, 2017	79,823	130	284	576	-	80,813
NET COST:						
As of September 30, 2017	53,353	81	127	400	15,821	69,782
As of December 31, 2016	55,651	80	135	464	8,013	64,343

(a) The charge for depreciation of property, plant and equipment - gas investments in 2017 for US$2,366 (US$2,769 in September 2016) is presented in item cost of sales in the consolidated statement of profit or loss and other comprehensive income (Note 21).

14. INTANGIBLE ASSETS

	Goodwill	Electric and hydrocarbon concessions	Total
	US$000	US$000	US$000
COST:			
Additions	395,457	93,614	489,071
As of December 31, 2016	395,457	93,614	489,071
Additions	-	-	-
As of September 30, 2017	395,457	93,614	489,071

Goodwill:

As of September 30, 2017 and December 2016, goodwill corresponds to the excess of the consideration given on the net fair value of assets, liabilities and contingent liabilities identified to the acquisition of the Peruvian operating business in December 20, 2016 (Note 28).

Electric and hydrocarbon concessions

As of September 30, 2017 and December 2016, electric and hydrocarbon concessions corresponds to intangible assets identified at the acquisition date in December 20, 2016 (Note 28).

15. FINANCIAL OBLIGATIONS

Financial obligations comprise the following:

Creditors	Type of obligation	Maturity	Authorized and used amount	Outsatanding balance – Total 2017	Total 2016	Current 2017	Current 2016	Non current 2017	Non current 2016
			US$000	S/000	S/000	S/000	S/000	S/000	S/000
Syndicated loan (a)	Loan	November 2021	450,000	-	450,000	-	16,875	-	433,125
Financing cost - loan	Loan	November 2021	(13,455)	-	(13,455)	-	-	-	(13,455)
		Subtotal	436,545	-	436,545	-	16,875	-	419,670
Bonds - Orazul Energy Perú (b)	Corporate bond	April 2027	550,000	563,320	-	13,320	-	550,000	-
Financing cost - Bonds		April 2027	(11,218)	(10,600)	-	(421)	-	(10,179)	-
		Subtotal	538,782	552,720	-	12,899	-	539,821	-
Bonds - 1st Serial - Second issuance (c.1)	Corporate bond	November 2026	35,000	-	35,923	-	923	-	35,000
Bonds - 2nd Serial - Second issuance (c.2)	Corporate bond	February 2024	40,000	-	40,310	-	310	-	40,000
Total				552,720	512,778	12,899	18,108	539,821	494,670

The maturity of financial obligations, including interests, is presented below:

	2017 US$000	2016 US$000
2017	15,469	4,628
2018	30,938	4,628
From 2019 to 2024	782,031	557,304
Total	828,438	566,560

(a) Syndicate loan

On December 14, 2016, the Company signed a loan agreement that accrued annual interest of 4% plus Libor. Accrued monthly interest and the principal had quarterly maturity. In April 2017, the Company prepaid the loan without any premium or penalty. The loan was conformed as follows:

	Amount US$000	Participation %
Lenders		
Banco de Crédito del Perú	225,000	50.00%
Deutsche Bank AG, London Branch	100,000	22.22%
The Bank of Nova Scotia	75,000	16.67%
Banco Internacional del Perú S.A.A.	50,000	11.11%
Total	450,000	100.00%

(b) Bonds - Orazul Energy Perú:

On April 25, 2017, the Company priced its inaugural bond offering in the international capital market in the amount of US$550,000 under Rule 144A and Regulation S of the Securities Market Law of the United States of America; it was obtained the risk classification (“BB”) assigned by the international risk classifiers Fitch Ratings and Standard & Poor´s. Said Bonds will be redeemed upon maturity in April 2027; accrue interest at a nominal annual rate of 5.625% and coupon interest is paid semi-annually.

During the effective term of bonds, the Company will be subject to restrictions and responsibilities, the most relevant are as follow:

- The Company agrees to some restrictions; in the payments outside its normal operation, new investments and in the sale of assets.

- The Company and its guarantors are obliged to keep their accounting records under IFRS, and report their Financial Statements within the periods established in the agreement.

- The Company agrees to comply with certain restrictions for new indebtedness.

- The Company agrees to maintain insurance policies effective that cover its generation and transmission assets and that have coverage, deductibles and insured amounts that result reasonable and usual for private companies engaged in the generation and distribution of electrical energy.

(c) Corporate bonds:

(c.1) The second issuance of the first serial of 35,000 bonds with a price of US$1,000 per bond was performed in November 2011. These resources were used for working capital. These bonds accrue annual interests of 6.375%, those interests have a semiannual maturity and the principal will be paid in November 2026 and is secured by the equity of the Company.

(c.2) The second issuance of the second serial of 40,000 bonds with a price of US$1,000 per bond was performed in February 2012. These resources were used for working capital. These bonds accrue annual interests of 5.8125%, those interests have a semiannual maturity and the principal will be paid in February 2024 and is secured by the equity of the Company.

During the effective term of corporate bonds, the Company was subject to the following restrictions and responsibilities:

- In case one or more events of default occur and if such default is not corrected, the Company will not be able to apply profits for dividend allocation. Also, the Company will not be able to settle the payment of dividends either in cash or kind (except those arising from the capitalization of profit or reserves) or to pay any amount for those concepts.

- The Company agrees not to make substantial changes to the main line and nature of its business. Also, the Company may not carry out mergers, split/offs or acquisition of companies or businesses or corporate reorganizations that may reasonably cause a substantially adverse effect or change in its financial or economic situation.

- The Company agrees not to incur any debt if the division of its debt by net equity is higher than 1.5 as a result of such debt.

- The Company agrees to maintain insurance policies effective that cover its generation and transmission assets and that have coverage, deductibles and insured amounts that result reasonable and usual for private companies engaged in the generation and distribution of electrical energy.

Management considers that these restrictions and responsibilities required to the Company are being complied appropriately as of December 31, 2016. Corporate bonds were paid on May 2017.

16. TRADE ACCOUNTS PAYABLE

Trade accounts payable comprise the following:

	2017 US$000	2016 US$000
Invoices	2,078	9,309
Goods and services received but not billed	8,025	7,429
Total	10,103	16,738

Trade accounts payable are mainly denominated in U.S. dollars, have current maturities, do not accrue interests and do not have specific guarantees.

17. OTHER ACCOUNTS PAYABLE

Other accounts payable comprise the following:

	2017 US$000	2016 US$000
Financial liabilties:		
Guarantee deposits	-	165
Sundry items	203	442
Sub-total	203	607
Non-financial liabilities:		
Value-Added Tax	1,412	890
Rural electricity contribution	63	807
Other taxes	287	1,659
Sub-total	1,762	3,356
Total	1,965	3,963

18. LIABILITIES FOR EMPLOYEE BENEFITS

The liabilities for employee benefits comprise the following:

	2017 US$000	2016 US$000
Vacations	275	1,796
Bonuses to employees	922	2,797
Employee profit-sharing	549	2,539
Employee severance indemnities	87	148
Pension Fund Administration	102	101
ESSALUD	81	56
Sundry items	3	6
Total	2,019	7,443

The liabilities for employee benefits are mainly denominated in Peruvian soles and have current maturity.

19. EQUITY

(a) Issued capital stock

As of September 30, 2017, issued capital stock is represented by 706,436,289 common shares with a face value of S/1.00 per share, duly authorized, issued and paid.

The shareholders’ Meeting held on July 4, 2017, agreed to capitalize a 50% of the shareholder loan with Orazul Energia (UK) Holdings Ltd., amounted to S/.416,221,350 (equivalent to US$ 127,950,000), issuing 416,221,350 common shares with a value of S/1.00 per share.

The disposal of El Salvador and Guatemala for an amount of US$80,684; its is pending to be approved by the shareholders’ meeting.

As of September 30, 2017, the equity interest structure of the Company was as follows:

Limited partners	**Shares** N°	**Participation** %
Orazul Energía (UK) Holdings Ltd.	706,336,502	99.99
Others	99,787	0.01
Total	706,436,289	100.00

(b) Excess of value paid in purchase of shares

As part of a reorganization within Orazul Group, on August 2, 2017, the Company acquired to Orazul Energía (España) Holding S.R.L. (hereinafter Orazul España), a related party, the 12.76% of its participation in OEG, and as a result the Company came out with an ownership of 99.99% of OEG. The related parties agreed to set a price of US$131,851 by an unsecure promissory note (Note 9(b)). However, the acquisition value of this 12.76% participation was US$115,295, for that reason, the Company recognized the excess of the value paid as a decrease in its equity for US$16,556. The shareholders of the Company is pending to decide the allocation of the excess of the value paid within the equity.

(c) Retained earnings

According to Legislative Law 945 of December 23, 2003, which amended the Income Tax Law, domiciled legal entities that agree to the distribution of dividends or any other form of distribution of profits, will retain the rate applicable as described in Note 26 of the amount to be distributed, except when the distribution is made in favor of legal entities domiciled in Peru.

There are no restrictions for dividend remittance or capital repatriation to foreign investors.

(d) Non-Controling Interest

As a part of the acquisition of the investment in OEG at December 20, 2016, the Company has recognized a non-controlling interest, for amount of US$52,804; correspond to 12.76% of equity of OEG.

As result of determination of purchase price allocation, the Company has recognized a non-controlling interest for amount for amount of US$65,947

As result of the acquisition of 12.76% participation of Orazul España in OEG in 2017 (Note 11), the corresponding non-controlling interest balance was transferred to retained earnings for US$172,555.

20. SALE OF ENERGY AND ELECTRICAL ENERGY TRANSMISSION SERVICES

For nine-month period ended on September 30, 2017 and 2016, the sale of energy and electrical energy transmission services include the following credit balances:

	2017 US$000	2016 US$000 Note 1(d)
Sale of electrical energy:		
Sale of electrical energy and power		
Energy	78,025	95,458
Power	45,288	54,638
Other	90	89
COES Compensations		
Energy	4,656	4,865
Power	3,538	1,224
Other	-	6,634
Sale of hydrocarbons:		
LPG	4,928	6,487
Natural gasoline	6,435	7,707
Elerctrical energy transmission	7,220	3,506
Total of sales	150,180	180,608

21. COSTS OF SALE OF ENERGY AND ELECTRICAL ENERGY TRANSMISSION SERVICES

For nice-month period ended on September 30, 2017 and 2016, the costs of sale of energy and electrical energy transmission services include the following debit balances:

	2017 US$000	2016 US$000 Note 1(d)
Royalties from electrical energy sales (Note 1)	1,945	9,264
Royalties from sales of hydrocarbons (Note 1)	3,911	4,254
Supplies, spare parts and fuel	586	815
Purchase of transmission charges	27,790	31,656
Purchase of energy		
Energy	7,132	14,761
Power	7,076	1,008
Other cost	1,630	2,022
Personnel charges	7,792	7,779
Services provided by third parties	4,861	6,666
Taxes	1,132	957
Sundry management charges	913	3,225
Estimates of the period:		
Depreciation (Note 12 y 13)	15,570	17,352
(Recovery) loss for obsolescence of inventories (Note 10)	(502)	(146)
Employee severance indemnities	386	405
Total	80,222	100,018

22. ADMINISTRATIVE EXPENSES

For nine-month period ended on September 30, 2017 and 2016, administrative expenses include the following debit balances:

	2017 US$000	2016 US$000 Note 1(d)
Personnel charges	5,774	6,067
Services provided by third parties	3,904	4,012
Taxes	1,288	1,488
Sundry management charges	1,628	2,203
Estimates of the period:		
Depreciation (Note 12)	276	265
Amortization	144	106
Employee severance indemnities	312	311
Impariment estimate of accounts receivable, net (Note 7)	5,844	7,716
Total	19,170	22,168

23. SELLING EXPENSES

For nine-month period ended on September 30, 2017 and 2016, selling expenses include the following debit balances:

	2017 US$000	2016 US$000 Note 1(d)
Personnel charges	914	945
Services provided by third parties	93	115
Sundry management charges	6	11
Estimates of the period:		
Employee severance indemnities	50	51
Total	1,063	1,122

For the nine-month period ended on September 30, 2017 and 2016, personnel expenses include the following debit balances:

	2017 US$000	2016 US$000 Note 1(d)
Salary	6,011	7,345
Bonuses	3,604	1,231
Profit sharing	316	2,021
Gratifications	1,305	1,301
Vacations	656	807
Others	3,336	2,853
Total (Notes 21, 22 and 23)	15,228	15,558

24. OTHER INCOME

For nine-month period ended on September 30, 2017 and 2016, other income includes the following credit balances:

	2017 US$000	2016 US$000 Note 1(d)
Equipment rentals	576	678
Net profit from the sale of fixed assets	2,421	131
Others	801	981
Total	3,798	1,790

25. FINANCIAL EXPENSES

For nine-month period ended on September 30, 2017 and 2016, financial expenses include the following debit balances:

	2017 US$000	2016 US$000 Note 1(d)
Interests on obligations - corporate bonds	33,850	3,518
Financing cost	22,444	-
Withholding tax	4,539	-
Other financial expenses	618	661
Total	61,451	4,179

26. INCOME TAX

(a) Income tax regime

(i) Tax rates

The income tax rate for legal entities domiciled in Peru shall be determined by applying the following rates on their net income:

Taxable periods	**Rates**
2015 -2016	28%
2017 and subsequent years	29.5%

Legal entities domiciled in Peru are subject to an additional rate, as shown below, on any amount that may be considered as indirect income, including amounts charged to expenses and unreported income; that is, expenses which may have benefited shareholders, interest holders, among others; other expenses not related to the business; expenses of shareholders, interest holders, among others, which are assumed by the legal entity.

Taxable periods	**Rates**
2015 -2016	6.8%
2017 and subsequent years	5%

(ii) Transfer pricing

Legislative Decree N° 1312 (published 31 December 2016) introduces changes to the Peruvian transfer pricing rules and reflects the intention of Peru to implement the recommendations from Actions 10 and 13 of the OECD's base erosion and profit shifting (BEPS) project.

There are new rules for transfer pricing information returns, pursuant to BEPS Action 13. Specifically, there are the following three transfer pricing reporting requirements:

Local file—Applicable to taxpayers with annual revenue greater than approximately U.S. $2.9 million. The first year to be reported under this new rule relates to FY 2016, so that the report is due in 2017. Exact deadlines are pending, having yet to be defined.

Master file—Applicable to taxpayers that belong to an economic group with annual revenue greater than approximately U.S. $24.9 million. The reporting requirement is first due in 2018. Exact deadlines are pending, having yet to be defined.

Country-by-country (CbC) reporting—Applicable to taxpayers that belong to a multinational group. The CbC report is first due in 2018. Exact deadlines are pending, having yet to be defined.

Intragroup services

With the new measures, it is now necessary for taxpayers to comply with a benefit test and to provide specific information as set forth in the new law before a taxpayer / company can deduct intragroup service charges for tax purposes. The arm´s length value of intragroup services must be determined based on a cost plus mark-up basis. In the case of "low value" added services, the mark-up cannot exceed 5%.

The Company and Subsidiaries have prepared the corresponding Transfer Pricing Technical Study for 2015 and they are now expecting for the new regulations in order to submit the Local File corresponding for 2016.

The Company and Subsidiaries have prepared the corresponding Transfer Pricing Technical Study for 2015 and they are now preparing the corresponding study for 2016.

Management believes that no significant liabilities will arise for the consolidated interim financial statements as of September 30, 2017 and December 31, 2016, with regard to transfer pricing.

(iii) Significant changes to Income Tax regime in Peru

After September 30, 2017, no significant changes have been made to the income tax regime in Peru which may impact these consolidated interim financial statements. The standards and interpretations effective as of September 30, 2017 and December 31, 2016 have been considered by Management when preparing these consolidated interim financial statements.

(iv) Tax situation

Orazul Energía

The review of income tax return of 2011 gave rise to the issuance of determination and fine resolutions for US$575. In February 2015, the Company filed a claim against the Tax Administration and in August 2015, the Tax Administration declared the claim filed by the

Company as groundless, so in September 2015, the Company filed an appeal against such resolutions before the Tax Court, which has not been resolved to date. The updated contingency is US$851.

Temporary tax on net assets return for the year 2013 was reviewed by the tax administration in 2014, which issued in May 2015 determination and fine resolutions for US$264 plus interests. In July 2015, the Company filed a claim with the Tax Administration; and in April 2016, the Tax Administration declared the claim filed by the Company as groundless. In May 2016, the Company filed an appeal against the SUNAT decision before the Tax Court, which has not been resolved to date. The updated contingency is US$426.

Income tax returns of year 2016 have not been reviewed by the Tax Administration yet, which are empowered to conduct such reviews within four years immediately after the submittal date of pertinent tax returns.

Etenorte

Income tax returns of years 2013 to 2016 have not been reviewed by the Tax Administration yet, which are empowered to conduct such reviews within four years immediately after the submittal date of pertinent tax returns.

Aguaytia

Income tax returns of years 2013 to2016 have not been reviewed by the Tax Administration yet, which is empowered to conduct such reviews within four years immediately after the submittal date of pertinent tax returns.

Termoselva

Income tax returns of years 2014 to2016 have not been reviewed by the Tax Administration yet, which is empowered to conduct such reviews within four years immediately after the submittal date of pertinent tax returns.

Eteselva

Income tax returns of years 2013 to2016 have not been reviewed by the Tax Administration yet, which is empowered to conduct such reviews within four years immediately after the submittal date of pertinent tax returns.

Due to possible interpretations that tax authorities may have on current applicable regulations each year, it is not possible to determine to date whether liabilities for the Company and Subsidiaries will arise or not from the reviews to be conducted. Therefore, any income tax or charge which may result from such tax reviews would be applied to results for the year when determined. Company and Subsidiaries Management believe that any additional tax payment would not be significant for the Consolidated Interim Financial Statements as of September 30, 2017 and December 31, 2016.

Temporary Tax on Net Assets

This tax is applicable to third category recipients subject to the general income tax regime. Since 2009, the tax rate of 0.4% is applicable to the amount of net assets exceeding S/1 million.

The actually paid amount can be used as credit against payments on account of the general income tax regime or against the payment of regularizations of income tax of the corresponding taxable period. As of September 30, 2017 and 2016 the Company and Subsidiaries do not have an ITAN balance to be recovered; only Termoselva and Eteselva are subjected to pay the temporary tax on net assets.

(b) Income tax expense of the Company and Subsidiaries comprises the following:

	2017 US$000	2016 US$000
Current income tax	13,709	18,894
Deferred income tax (Note 26)	(2,957)	(3,180)
Adjustment of income tax of previous periods	67	(151)
Total	10,819	15,563

The expense for current income tax corresponds to the tax to be paid, calculated by applying a 29.5% rate for Company and Subsidiaries and 30% for Aguaytia on taxable income (28% for Company and Subsidiaries and 30% for Aguaytia on in 2016), after deducting 5% of profit-sharing of employees.

(c) During the nine-month period ended September 30, 2017 and 2016, the effective rate of income tax expense is different from the tax rate applicable to profit before taxes. The nature of this difference is due to certain items related to the determination of taxable income, whose effects on applicable tax rate are presented below (in percentages on profit before taxes):

	2017		2016	
	Amount US$000	Percentage %	Amount US$000	Percentage %
Loss (Profit) before income tax	(6,209)	100	53,948	100
Income tax caculated as per tax rate	(1,894)	29.50	15,106	28.00
Tax effect on additions and deductions:				
Non-deductible expenses (net)	1,970	(31.73)	967	1.79
Tax loss	10,743	(173.02)	-	-
Sundry items	-	-	(510)	(0.95)
Current and deferred income tax as per effective rate (paragraphs (i) and (ii))	10,819	(175.25)	15,563	28.85

(d) Compensation of tax loss carry forward - Aguaytia

According to Legislative Decree No. 774 (applicable for Aguaytia Hydrocarbon operations), it will be possible to compensate the tax loss from Peruvian sources determined registered on a taxable period, imputing it on a year basis, until the amount is extinguished, to the taxable income that are obtained in the next four subsequent years completed from the year following of its generation period. The balance that is not compensated after this period can be carry forward to the following years.

As of September 30, 2017 and December 31, 2016, Aguaytia has a tax loss carryforward of US$10,743 and US$5,808 respectively and which was generated in 2016 period.

(e) The Company and Subsidiaries hold receivable balances with the Tax Administration for US$504 as of September 30, 2017 (US$3,833 in December 2016).

27. DEFERRED INCOME TAX LIABILITY

The movement of net deferred income tax liability and the description of temporary differences that generated them are shown below:

	Balance as of 31.12.2016	Profit/loss for the year	Balance as of 30.09.2017
	US$000	US$000 (Note 25)	US$000
As of September 30, 2017:			
Liability:			
Business combination	50,532	-	50,532
Difference in depreciation basis and rates of property, plant and equipment	57,813	(3,635)	54,178
Financing cost	-	3,104	3,104
Total	108,345	(531)	107,814
Asset:			
Tax loss	(1,801)	(3,470)	(5,271)
Impairment loss of property, plant and equipment	(3,149)	1,416	(1,733)
Provision for vacations	(530)	203	(327)
Impairment estimate of accounts receivable	(2,553)	283	(2,270)
Provision for dismantling of assets	(204)	(43)	(247)
Obsolescence estimate of inventory	(351)	110	(241)
Effect originated by difference between functional currency and currency for tax purposes in Non-monetary assets	(444)	(1,068)	(1,512)
Other provisions	(320)	143	(177)
Total	(9,352)	(2,426)	(11,778)
Total deferred (net)	98,993	(2,957)	96,036

	Balance as of 31.12.2015	Profit/loss for the year	Effect of change in tax rate	Balance as of 31.12.2016
	US$000	US$000	US$000	US$000
As of December 31, 2016:				
Liability:				
Business combination	-	50,532	-	50,532
Difference in depreciation basis and rates of property, plant and equipment	53,093	22	4,698	57,813
Total	53,093	50,554	4,698	108,345
Asset:				
Tax loss	-	(1,801)	-	(1,801)
Impairment loss of property, plant and equipment	(3,845)	835	(139)	(3,149)
Provision for vacations	(463)	(61)	(6)	(530)
Impairment estimate of accounts receivable	(1,067)	(1,477)	(9)	(2,553)
Provision for dismantling of assets	(375)	180	(9)	(204)
Obsolescence estimate of inventory	(328)	3	(26)	(351)
Effect originated by difference between functional currency and currency for tax purposes in Non-monetary assets	(156)	(288)	-	(444)
Other provisions	(329)	12	(3)	(320)
Total	(6,563)	(2,597)	(192)	(9,352)
Total deferred (net)	46,530	47,957	4,506	98,993

28. ACQUISITION OF BUSINESSES

On December 20, 2016, the Company and Orazul Energía (España) Holding S.R.L. (hereinafter "Orazul España") acquired the investment of OEG, which held operating business in Peru, Chile, and Central America (Guatemala and El Salvador), by a total purchase price of US$983,195. The Company paid in cash a total amount of US$857,592, equivalent to its participation of 87.23% and the participation of 12.76% was acquired by Orazul España, a related company.

Subsequently on August 2, 2017, the Company acquired the 12.76% participation of OEG from Orazul España for a purchase price of US$ 131,851 (Note 11 and 19), becoming the owner of 99.99% participation of OEG.

The acquisition was consistent with the strategy of investing in select high-growth economies through companies that have a long track record of adhering to the highest standards of excellence and expand its global portfolio of clean power generation.

Assets and liabilities, and equity at fair value determined as of acquisition dates, were as follows:

	2016 Investment OEG US$000
Cash and cash equivalents	81,876
Trade accounts receivable (net)	64,802
Other accounts receivable	23,109
Accounts receivable from related entities	46,195
Inventories (net)	63,047
Income tax asset	12,730
Other assets	46,285
Property, plant and equipment (net)	1,035,438
Intangibles asstes	93,614
Financial obligations	(351,700)
Trade accounts payable	(33,330)
Other accounts payable	(7,499)
Accounts payable to related entities	(548)
Liabilities for employee benefits	(8,969)
Deferred income liabilities	(3,903)
Deferred income tax assets	(25,328)
Income tax liabilities	(4,978)
Provisions	(9,914)
Fair value of net assets	1,020,927
Purchase price	983,195
Bargain purchase, net	(37,732)

As required by IFRS 3, The Company performed the identification of assets and liabilities acquired at fair market value at the acquisition date. This assessment resulted in an additional recognition of intangibles assets related to electric and hydrocarbon concessions for an amount of US$93,614 and adjustment of fair market value of fixed assets for an amount of US$116,540. Those adjustments of intangible assets and fixed assets are subject to temporary differences for income taxes and therefore the Company has recorded a deferred income tax liability of US$50,532 (Note 27), and the counterparty allocated to the goodwill.

The bargain purchase gain, net, of US$37,732, comprised a goodwill by US$344,924 for the Peruvian operating business and a bargain purchase gain by US$382,656 for the Chilean and

Central America operating businesses. The Company considers that the gain or loss because of the business acquisition in each country is reflective of industry conditions at the acquisition date.

In addition, since the acquisition date of OEG, the Company had the plan to sale the operating business in Chile and Central America in a short term and such those assets have been classified as asset held for sale.

The goodwill related to the Peruvian operating business of US$344,924 was recognized as part of intangible assets and the bargain purchase gain related to Central America and Chile operating business of US$382,656 was recorded as discontinued operations in the statement of profit or loss and other comprehensive income.

The adjustment of fair market value of fixed assets was allocated as follows:

	12/31/2016 US$000
Property, plant and equipment (net) - Energy generation and transmission (Note 12)	71,949
Property, plant and equipment (net) - Gas investment (Note 13)	5,734
Purchase price allocation to assets held for sale	38,857
Total	116,540

Neither the bargain purchase gain nor goodwill on these acquisition is expected to be deductible for income tax purposes.

29. CONTINGENCIES

The Company and Subsidiaries has the following contingencies that are individually significant claims that, in the opinion of the Company and Subsidiaries's Management and its legal advisors, have a possible perspective of loss. In this order, and based on the information available to the Company and Subsidiaries, including the estimated time remaining until the completion of the litigation, the results of the evidence presented in the cases, and the evaluation of the Internal and external advisors, the Company and Subsidiaries cannot estimate a loss or range of loss reasonably possible with respect to certain issues described below:

Orazul Energía Peru:

(a) In January 2017, OEFA has initiated a sanction proceeding against the Company regarding an alleged breach of the maximum permissible limits related to suspended solid particles applicable to the water discharged from the turbines at Central Carhuaquero IV, in connection with which the Company could be fined up to 5,000 UIT.

Aguaytia:

(b) Aguaytía is party to a sanctioning administrative proceeding initiated by OSINERGMIN for not having a Supervisory Control and Data Acquisition ("SCADA") system in place at Block 31-C in connection with which OSINERGMIN has imposed a fine of 5,674.38 UIT (equivalent to US$7,015). Aguaytía has initiated one proceeding in local court to dispute the amount of the fine and another proceeding to determine whether Aguaytía committed the infraction in connection with which the fine is being imposed. Aguaytía is party to a second sanctioning administrative proceeding related to non-compliance with Flare and Blowdown Systems in connection with which it could be fined up to 3,000 UIT.

Eteselva:

(c) Eteselva is party to a sanction proceeding initiated in 2017 related to alleged breaches of the Technical Standard for the Exchange of Information in Real Time with the SEIN in connection with which it could be fined up to 1,000 UIT (equivalent to US$1,205). Eteselva is party to a second proceeding related to non-compliance with the monitoring and trimming of the trees across a transmission line, which occasioned six disconnection events during 2016, in connection with which it could be fined up to 1,000 UIT (equivalent to US$1,236). Finally, Eteselva is party to a third sanction proceeding initiated in 2017, related to alleged breaches of the Technical Standard for the Coordination of the Operation in Real Time with the Interconnected Systems and the Internal Safety and Health at Work Regulations (Reglamento de Seguridad y Salud en el Trabajo con Electricidad) in connection with which it could be fined up to 1,150 UIT (equivalent to US$1,386).

Termoselva:

(d) Termoselva is party to a sanction proceeding initiated by OSINERGMIN for an alleged breach of Technical Standard for the Exchange of Information in Real Time with the SEIN in connection with which it could be fined up to 1,000 UIT (equivalent to US$1,205).

As of September 30, 2017 and December 31, 2016, the Subsidiaries Etenorte does not maintain contingencies.

30. OHER COMPREHENSIVE INCOME FOR THE PERIOD

As of September 30, 2017, included mainly the loss for disposal of operating business of Central America (Guatemala and El Salvador) for an amount of US$225,210 (Note 11), effect of loss of operating business of Chile for an amount of US$1,429 (Note 11) and effect of loss for the disposal of a Company in Chile, realized by a subsidiary for US$109,944.

31. COMMITMENTS AND GUARANTEES

Sale of energy

As of September 30, 2017 and December 31, 2016, main commitments of sale of energy of the Company are as follows:

Customers	**Contracted power**	**Start date – agreement**	**Termination date - agreemnet**
	Kw		
Regulated	From 143 to 86,027	Between 2013 and 2014	Between 2019 and 2023
Free	From 5,000 to 60,000	Between 2014 and 2016	Between 2017 and 2018

32. ENVIRONMENT

Pursuant to the provisions set forth in Supreme Decree No. 029-94-EM, Regulations for the Environmental Protection in Electrical Activities, the Company implemented in previous years its Environmental Management and Adaptation Program (PAMA), which was previously approved by competent authorities. On July 11, 2005, the Company received Official Letter No. 3042-2005-OSINERG-GFE, under which the Safety and Environmental Area of OSINERGMIN concludes that the Company has not have any pending commitment in its PAMA.

33. SUBSEQUENT EVENTS

We are not aware of any subsequent event that has occurred between the closing and approval date of these Consolidated Interim Financial Statements that could affect it significatively.